2001, our sixteenth year, was a brutal one. The savage events of September 11 had a material commercial impact, particularly in the US, deepening the recession that had begun in the fourth quarter of 2000. Despite these very difficult trading conditions, the annual results represent record profits in the Company's sixteenth year.

Turnover was up almost 50% to almost £21 billion primarily reflecting the full year inclusion of Young & Rubicam Inc. and the growth of our media investment management activities.

Revenues grew almost 35% to over £4 billion for the first time. Pre-tax profits, before investment gains and write-downs, rose by almost 30% to £475 million and earnings per share, on the same basis, were up marginally to 30.6p. Even after those investment gains and write-downs, pre-tax profits were up by 12% to £411 million, but earnings per share were down 16% to 23.7p. We raised the dividend by 20% to 4.5p per share.

As in 2000, the only disappointment was that the share price, the real measure of your wealth, fell by over 12% during 2001. However, your Company's share price performance ranked second in terms of share price appreciation against a comparator group of 14 global competitors since 1 January 1999.

The rest of this letter is based on constant currency comparisons, more meaningful given the relative strength of the dollar and sterling in 2001. On a like-for-like basis revenues were down by 3% and gross profit down by 4%, disappointing at face value, but relatively strong when you consider that the worldwide advertising market was probably down by 5% and marketing services flat to down as well. Your Company probably continued to build market share. Given the more difficult world economic conditions, your Company's revenue growth objective has been modified from 5-10% to 0-5% for the near term.

By discipline, Information & consultancy continued to grow relatively strongly. Advertising and Media investment management and Branding & identity, Healthcare and Specialist communications were less affected than we thought they would be by the recession, but Public relations & public affairs remained the most affected, particularly by the slow-down in the information technology, telecommunications and financial services sectors. As a result, marketing services continued to increase their share of our business to 54% from 53%, a trend that had briefly been interrupted in 2000.

Geographically, Continental Europe and Asia Pacific, Latin America, Africa and the Middle East grew relatively strongly, with the UK holding its own. The US was most affected by the recession and the terrorist attacks. As a result, markets outside the US have increased their share of our business, now accounting for 56% of our business, again resuming a trend interrupted by 2000.

Operating margins were flat at 14%, behind our objective of 15%, but a highly creditable performance given the lack of revenue growth and that all severance and restructuring costs were included in operating costs. No exceptional provisions for such costs were made, unlike almost all of our competitors. To some extent this reflected an improvement in productivity and efficiency as like-for-like people numbers fell by 2%, with end of year comparisons down almost 9%.

As a result, profit before interest, tax and investment gains and write-downs grew by over 30% to £546 million. We wrote down the value of certain minority investments in the areas of new media and technology following the collapse in equity valuations in those sectors, and this was the principal reason why pre-tax profits rose by only 12% to £411 million.

We generated free cash flow of £504 million, up 68% over last year, which was more than absorbed by acquisition payments and investments of £736 million, share repurchases and cancellations of £103 million and dividends of £44 million. Partly as a result, average net debt rose to £834 million, up £385 million at 2001 exchange rates. Your Board is comfortable with this level of gearing, the resultant interest cover of almost eight times and the maintained credit rating of A- and Baa1. In any event, subsequent to the year-end, your Company took the opportunity to access the convertible bond market by issuing £450 million of convertible bonds at a 2% coupon with a 45% conversion premium, in order to re-finance the borrowings associated with the acquisition of Tempus.

Finally, earnings per share before investment gains and write-downs rose by 2% to 30.6p. After these items, earnings per share fell by 16%.

2002 will not be an easy year either, although it will be better than 2001. The world's stock markets seem to be signalling a recovery has started, which will be reflected in corporate earnings in the latter half of this year. So far, we at WPP see no signs of a recovery, no green shoots or blue sky. This may be because the advertising and marketing services industry generally lags an upturn and leads a downturn. Historically high levels of unemployment of 5 or 6% in the US and the UK and 7% to 9% in Continental Europe, with regional levels almost double in the south of Italy or France or eastern Germany, probably encourage fear or uncertainty amongst decision makers. Increased expenditure will only occur when an upturn is assured. Similarly, on a downturn cuts are made early.

It could also well be that we are witnessing an inventory build-up, following an inventory squeeze in late 2000 and 2001. If this is so, it is likely that any recovery will be bath- or saucer-shaped, with a gentle recovery, rather than a more violent V- or W- shaped recovery or the more depressing L- or A- shaped recovery.

At WPP, reported revenues fell by over 2% in the first three months of 2002. On a like-for-like basis, revenues fell by almost 9%. Our objective is still to improve margins to 15% this year, although market conditions will make this a difficult target to achieve.

Our raison d'être continues to be to find ways of adding value to our clients' businesses and our people's careers and thus justify WPP's existence. Our goal remains to become the world's most successful and preferred provider of communications services to multinational and local companies.

We have three strategic priorities. First, in the short-term, to weather this difficult recession. Secondly, in the medium-term, to continue to successfully integrate the acquisitions of Young & Rubicam Inc. and Tempus. Thirdly, to increase the share of marketing services revenues from approximately 54% where it is now to 65%, within five to 10 years; and similarly increase the share of Asia Pacific, Latin America, Africa and the Middle East revenues from 20% to 33$\frac{1}{3}$%; and finally, to increase the share of information and consultancy, direct and interactive revenues from 35% to 50%.

Our six objectives remain as follows:

- First, to continue to raise operating margins to the levels of the best performing competition. 2001 delayed our progress. 15% now becomes our target in 2002, with 15.5% in 2003. Beyond 2003, we think there is life after 15.5%. Agencies such as Dentsu and BBDO have achieved 20% and mini-holding companies like McCann have as well – so it can be done.
- Second, to continue to increase the flexibility in our cost structure. Our success in this area proved very valuable in 2001. Variable staff costs, freelance and consultants' fees fell to about 5% of revenue from approximately 7%. We aim to rebuild this ratio again.
- Third, to improve share owner value by optimising the investment of the company's £500 million cash flow across the alternatives of capital expenditure, mergers and acquisitions and dividends and share buy-backs. Capital expenditure tends to approximate to the depreciation charge, so the emphasis is more on the balance between mergers and acquisitions and dividends and share buy-backs. With the slow-down in economic activity,

acquisition pricing has become more attractive, particularly in the US. However, vendors have also become more cautious as their performance has wavered too. The smaller companies in the private markets remain more attractive with single-figure and low double-digit price earnings multiples.

We continue to increase dividends aggressively given the high dividend cover of almost seven times. However, given the fixed charge nature of a dividend, we tend to favour a rolling annual share buy-back program, as historical data seems to indicate that this has the greatest impact on share owner value.

● Fourth, to continue to develop the role of the company as a parent company, beyond that of a financial holding or investment company which focuses solely on financial matters such as planning, budgeting, reporting, control, treasury, tax, mergers and acquisitions and investor relations. With a relatively small team of approximately 160 people at the centre, predominantly based in London and New York, with some support in Hong Kong and São Paulo, we continue to focus on the areas of human resources, property, procurement, information technology and practice development.

Talent, or the quality of our people, is the key differentiator in our business and we aim to raise our game even further in this area with new appointments and added resources.

In the human resources area we continue to develop our short-term and long-term incentive plans, our WPP Leaders, WPP Partners and WPP High Potential groups, our Worldwide Ownership Plan, our Worldwide Partnership Program and Atticus Awards – our literary Oscars; our training and knowledge-sharing programs and specialised seminars on creativity, retailing and interactive; our Marketing Fellowship Program; our Group directory, *Navigator*; our global newspaper, *The WIRE* and our monthly online news bulletin, *e.wire*.

In property management, we continue to implement the WPP Space Program which seeks to improve the return on our annual investment of $460 million in our property, by improving communications, speed of response and efficiency, through new design and layout of our premises. This unique product has made an impact in the real estate industry and recently received the Innovation in Corporate Real Estate Award 2002 from NACORE International, the international association of corporate real estate executives.

In procurement, we continue to take initiatives in various regions of the world to improve the way we purchase goods and services and co-ordinate Group buying.

In information technology, we are increasingly co-ordinating our $350 million annual investment in hardware, software and information technology salaries.

Finally, in practice development we continue our 'horizontal' initiatives in 10 identified high growth areas across our 'vertical' operating brands – in media investment management; in healthcare; in privatisation; in new technologies; in new geographic markets; in retailing; in internal communications; in entertainment and media; in financial services; and in telecommunications and hi-tech. In addition, we are developing our direct investments in new media and our start-ups and internal strategic alliances, which reinforce our practice development initiatives.

All these initiatives are designed to ensure that we, the parent company, really do (and are perceived to) inspire, motivate, coach, encourage, support and incentivise our operating companies to achieve their strategic and operational goals.

● Fifth, as we move up the margin curve, to place greater emphasis on revenue growth. A legitimate criticism of our record against the best performing competition is that we have been unable to deliver the highest levels of organic revenue growth. In the last half of the 90s we averaged 8% organically against 10% for the best performing companies. 2000 was a bumper but unsustainable year. 2001 was slightly disappointing, falling back into the middle of the pack and the start to 2002 has been similar.

Our objective is to position our portfolio in the faster growing functional and geographic areas. Our practice development activities are also aimed to help us achieve this objective and acquisitions so far in 2002 – in Advertising and Media investment management in the UK, China and Finland; in Information & consultancy in Thailand and Ireland; in Public relations & public affairs in Japan; and in sports marketing in Germany – are also key.

Achieving our strategic priorities, referred to previously, by expanding the market shares of our business in Asia Pacific, Latin America, Africa and the Middle East to one-third, in marketing services to two-thirds and in Information & consultancy, direct and interactive to one-half, are also critical.

We will expand our strong operating brands – Ogilvy & Mather Worldwide, J. Walter Thompson Company, Y&R Advertising, Red Cell, MindShare, Mediaedge:cia, Research International, Millward Brown, Kantar Media Research, Center Partners, Hill and Knowlton, Ogilvy Public Relations Worldwide, Burson-Marsteller, Cohn & Wolfe, OgilvyOne, Wunderman, CommonHealth, Sudler & Hennessey, Enterprise IG and Landor – in high growth markets or where their market share is insufficient. In 2001 we strengthened our position in Argentina, Australia, Brazil, France, Germany, Hong Kong, Japan, Portugal, South Africa, South Korea, Switzerland, Taiwan, Turkey, the UK and the US. In 2002 there will be more work to do again in the heartland of Continental Europe – France, Germany, Italy and Spain.

We will also enhance our leadership position in Information & consultancy by continuing to develop our key brands with particular emphasis on North America, Asia Pacific and Latin America. We will also reinforce our growing position in media research through Kantar Media Research. This includes our investments in television audience research through IBOPE and AGB Group, which following even greater success in the UK and Australia, now have strong representation in 29 countries in Europe, Latin America and Asia Pacific.

In addition, we will reinforce our worldwide strength in direct and interactive marketing and research through our traditional channels such as OgilvyOne, Wunderman, digital@jwt, Alexander Ogilvy, Blanc & Otus and Lightspeed. Where the recent compressions in financial valuations may offer significant opportunities, we will also invest directly in the new channels. Lastly, we will continue to develop our specialist expertise in areas such as Healthcare, retail and interactive and to identify new high growth areas.

● Our sixth objective is to improve still further the quality of our creative output. Of the three things we do, strategic thinking, creative execution and co-ordination, creative execution is probably the most important – but we use the phrase in its broadest sense. Clients look for creative thinking and output not just from advertising agencies, public relations and design companies, but also from our Media investment management companies, MindShare and Mediaedge:cia, and our research companies. Millward Brown is already arguably one of our most creative brands.

We will do this by stepping up our training and development programs; by recruiting the finest talent from outside; by celebrating and rewarding outstanding creative success both tangibly and intangibly; by acquiring strong creative companies; and by encouraging, monitoring and promoting our companies' achievements in winning creative awards.

A colossal amount remains to be done – and given the pace of change that our clients face and therefore challenge us with, it seems certain that once these objectives are achieved they will be replaced by new ones.

As companies grow in size, most chairmen and CEOs become concerned that their organisations may become flabby, slow to respond, bureaucratic and sclerotic.

Any sensible chairman or CEO would not want this to be the case. They would want both the benefits of size and scale with the responsiveness and energy of a smaller firm. For the first time new technologies enable this to be achieved more effectively and easily.

WPP is no different. We want the scale and resources of the largest firm together with the heart and soul of a small one.

As a parent company, we are developing practical principles and policies for charitable giving, the environment and support for communities and the arts, based on best practice guidelines. Our activities run in parallel with our operating companies' initiatives and programs in each of these areas. A summary of the Group's approach to corporate social responsibility can be found on page 92.

To end as we began, 2001 was a brutal year; and brutal years are the true test of companies. Or, to be more precise: brutal years are the true test of a company's people.

Perhaps unwisely, we finished last year's letter to share owners with these words: "The year 2000 was an outstanding year. 2001, although a more difficult year, should be an even better one." As the 65,000 people who work for WPP companies will be the first to testify, it certainly didn't feel that way.

When times are good, working in marketing communications can be professionally satisfying, financially rewarding, and frequently great fun. In less good years, the demands are just as great, the need for creativity even greater, but a sense of buoyancy is a good deal harder to maintain. It is to the lasting credit of our people that they responded to this unforgiving year as willingly and inventively as they did. On our share owners' behalf, we thank them all for their resilience – and their continued and determined dedication to their clients' tasks.

We can say with some certainty that 2002 will be another difficult year. It should, however, be a better one.

Philip Lader
Chairman

Sir Martin Sorrell
Group chief executive

PHIL REISS

He was our lawyer, our business advisor, our advocate and our friend. He was a man of wisdom, vision, decency and generosity. He served our Company with the warmth and commitment of a founding father. Great as it is, our sense of loss no more than matches the contribution he made.

Philip S. Reiss
27 April 1931-13 January 2001