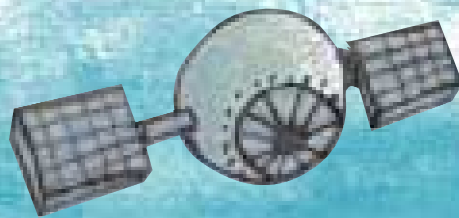
WPP Group plc Annual Report and Accounts 2000



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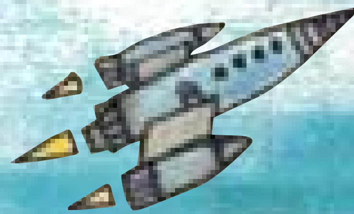
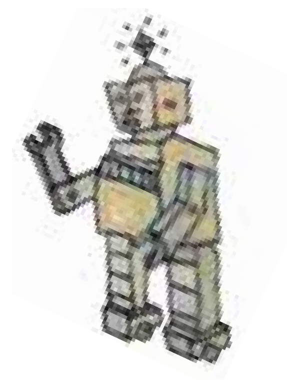
Our mission



To develop and manage talent;
to apply that talent;
throughout the world,
for the benefit of clients;
to do so in partnership;
to do so with profit.



The Brand Union

bpri
Ogilvy Primary Contact
MD&A
MENDOZA, DILLON & ASOCIADOS, INC.

pFour
LAMBIE-NAIRN
SAVATAR
PACE
EQUUS
MANDO
The Henley Centre
Quadra Advisory
Warwicks
rmg RELATIONSHIP MARKETING GROUP
KMR
Kantar Media Research
Banner McBride
thelordgroupadvertising, etc.
WalkerGroup/CNI
CARL BYOIR & ASSOCIATES
Premiere Group
THE WEXLER GROUP
BMRB INTERNATIONAL
metro
addison
SPAFAX
KnowledgeBase MARKETING, INC.
HILL & KNOWLTON
Landor
Branding Consultants and Designers Worldwide
Goldfarb Consultants
Buchanan
communications

EWA

IMRB
Millward Brown
The Geppetto Group
S&H
ROBINSON LERER & MONTGOMERY

PRISM
red cell
THE PARTNERS
wg
RESEARCH INTERNATIONAL
Ogilvy
The Bravo Group
Y&R
INTERNATIONAL PRESENTATIONS
the art + science of customer relationships from wcj
impiric
KANTAR
MindShare
Cohn & Wolfe
The Media edge
COLEY PORTER BELL
THE FOOD GROUP
THE GRASS ROOTS GROUP PLC
Kang & Lee Advertising
DY&R
Center Partners
Superior Outsourcing Solutions
J. Walter Thompson
Burson-Marsteller
BDG McColl
J. Walter Thompson
JWT Specialized Communications

icon brand navigation

BLANC & OTUS
rtc brands built on relationships
ThompsonConnect Worldwide
AlexanderOgilvy PUBLIC RELATIONS WORLDWIDE

BATEY
Enterprise | IG
einsonfreeman
Ogilvy Public Relations WORLDWIDE
BRIERLEY & PARTNERS
CommonHealth
OgilvyOne worldwide
Enterprise | XP
A. Eicoff & Company
A Division of Ogilvy & Mather
:) HIGH CO.
the Farm
THE SHIRE HALL GROUP

Brouillard
OakleyYoung
syzygy let's grow

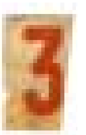
PORTLAND
ADK
Marketing Science & Communication Services
Banner Corporation

Who we are

WPP is one of the world's leading communications services groups. Our companies provide communications services to clients around the world, including more than 300 of the Fortune Global 500, over one-half of the Nasdaq 100 and over 30 of the Fortune e-50. Our 65,000 people work from 1,300 offices in 102 countries.

Every WPP company is a distinctive brand in its own right; all with their own identities and own areas of expertise. That is their strength. What they have in common is in harnessing intelligence, talent and experience to bring competitive advantage to their clients.

WPP, as a parent, complements the professional activities of our individual operating companies through initiatives and programs that provide greater value to our clients, competitive advantage to our companies, opportunities and rewards for our people.



Our companies and associates

Through our companies and associates, WPP offers a comprehensive and, when appropriate, integrated range of communications services to national, multinational and global clients.

Our companies work with over 330 clients in three or more disciplines. More than 60 clients are served in four disciplines; over 100 clients are served in six or more countries.

Advertising

Ogilvy & Mather Worldwide
www.ogilvy.com

J. Walter Thompson Company
www.jwtworld.com

Y&R Advertising[1]
www.yandr.com

Red Cell
www.redcellnetwork.com

Asatsu-DK[2]
www.asatsu-dk.co.jp

Batey[2]
www.bateyads.com.sg

Chime Communications PLC[2]
www.chime.plc.uk

Dentsu, Young & Rubicam[1,4]

Equus[2]

SCPF[2]
www.scpf.com

The Lord Group[1]
www.thelordgroup.com

Media investment management

MindShare
www.mindshareworld.com

The Media Edge[1]
www.mediaedge.com

Media Insight

Maximize

Portland Outdoor
www.portlandoutdoor.com

The Media Partnership[2]

Tempus Group PLC[3]
www.tempusgroup.com

Information & consultancy

The Kantar Group:

Research International
www.research-int.com

Millward Brown
www.millwardbrown.com

Kantar Media Research
- AGB Italia[2]
  www.agbitalia.it
- BMRB International
  www.bmrb.co.uk
- IBOPE Media Information[2]

Goldfarb Consultants
www.goldfarbconsultants.com

IMRB International[2]
www.imrbint.com

Center Partners
www.centerpartners.com

Public relations & public affairs

Buchanan Communications
www.buchanan.uk.com

Burson-Marsteller[1]
www.bm.com

Carl Byoir & Associates

Cohn & Wolfe[1]
www.cohnwolfe.com

Hill and Knowlton
www.hillandknowlton.com

Ogilvy Public Relations Worldwide
www.ogilvypr.com

Robinson Lerer & Montgomery[1]

Timmons and Company

The Wexler Group
www.wexlergroup.com

Chime Communications PLC[2]
www.chime.plc.uk

Branding & identity

The Brand Union:

Addison Corporate Marketing[*]
www.addison.co.uk

BDG McColl[*]
www.bdgmccoll.com

BPRI[*]
www.bpri.co.uk

Coley Porter Bell[*]
www.cpb.co.uk

Dovetail[*]
www.dovetaillondon.com

Enterprise IG[*]
www.enterpriseig.com

Enterprise XP[*]
www.enterprisexp.com
– Banner McBride[*]
www.bannermcbride.com
– Clever Media[*]
www.clever.co.uk
– Eurosem[*]
www.eurosem.com
– The Clinic[*]
www.planetpoint.com/clinic

Lambie-Nairn[*]
www.lambie-nairn.com

Oakley Young[*]
www.oakley-young.co.uk

Walker Group/CNI[*]
www.wgcni.com

Warwicks[*]
www.warwicks-uk.com

CB'a
www.cba.tm.fr

icon brand navigation
www.icon-brand-navigation.com

Landor Associates[1]
www.landor.com

The Partners[1]
www.thepartners.co.uk

Healthcare

CommonHealth
www.commonhealth.com

Ogilvy Healthcare

Shire Hall Group
www.shirehall.com

Sudler & Hennessey[1]
www.sudler.com

Direct, promotion & relationship marketing

A. Eicoff & Co
www.eicoff.com

Brierley & Partners[2]
www.brierley.com

Einson Freeman
www.einsonfreeman.com

EWA
www.ewa.ltd.uk

The Grass Roots Group[2]
www.grg.co.uk

High Co[2]
www.highco.fr

Impiric[1]
www.impiric.com

KnowledgeBase Marketing[1]
www.knowledgebasemarketing.com

Mando Marketing
www.mando.co.uk

OgilvyOne Worldwide
www.ogilvyone.com

RMG International

RTC
www.rtcdc.com

Savatar
www.savatar.com

ThompsonConnect Worldwide

Specialist communications

Strategic marketing consulting

Glendinning
www.glendinning.com

The Henley Centre[*]
www.henleycentre.com

Management Ventures
www.mventures.com

pFour Consultancy
www.pfour.co.uk

Quadra Advisory[2]
www.quadraadvisory.com

Sector marketing

Corporate/B2B

Brouillard
www.brouillard.com

Ogilvy Primary Contact
www.primary.co.uk

Demographic marketing

The Bravo Group[1]
www.thebravogroupyr.com

The Geppetto Group
www.geppettogroup.com

Kang & Lee[1]
www.kanglee.com

The Market Segment Group[2]
www.marketsegment.com

Mendoza Dillon & Asociados
www.mendozadillon.com

UniWorld[2]
www.uniworldgroup.com

Foodservice

The Food Group
www.thefoodgroup.com

Investor relations

International Presentations[2]
www.intpres.com

PR & sports marketing

Première Group
www.premieregroup.co.uk

PRISM Group
www.prismteam.com

Real estate

Pace
www.paceadv.com

Technology

Banner Corporation[1]
www.b1.com

Media & technology services

Clockwork Capital[2]
www.clockworkcapital.com

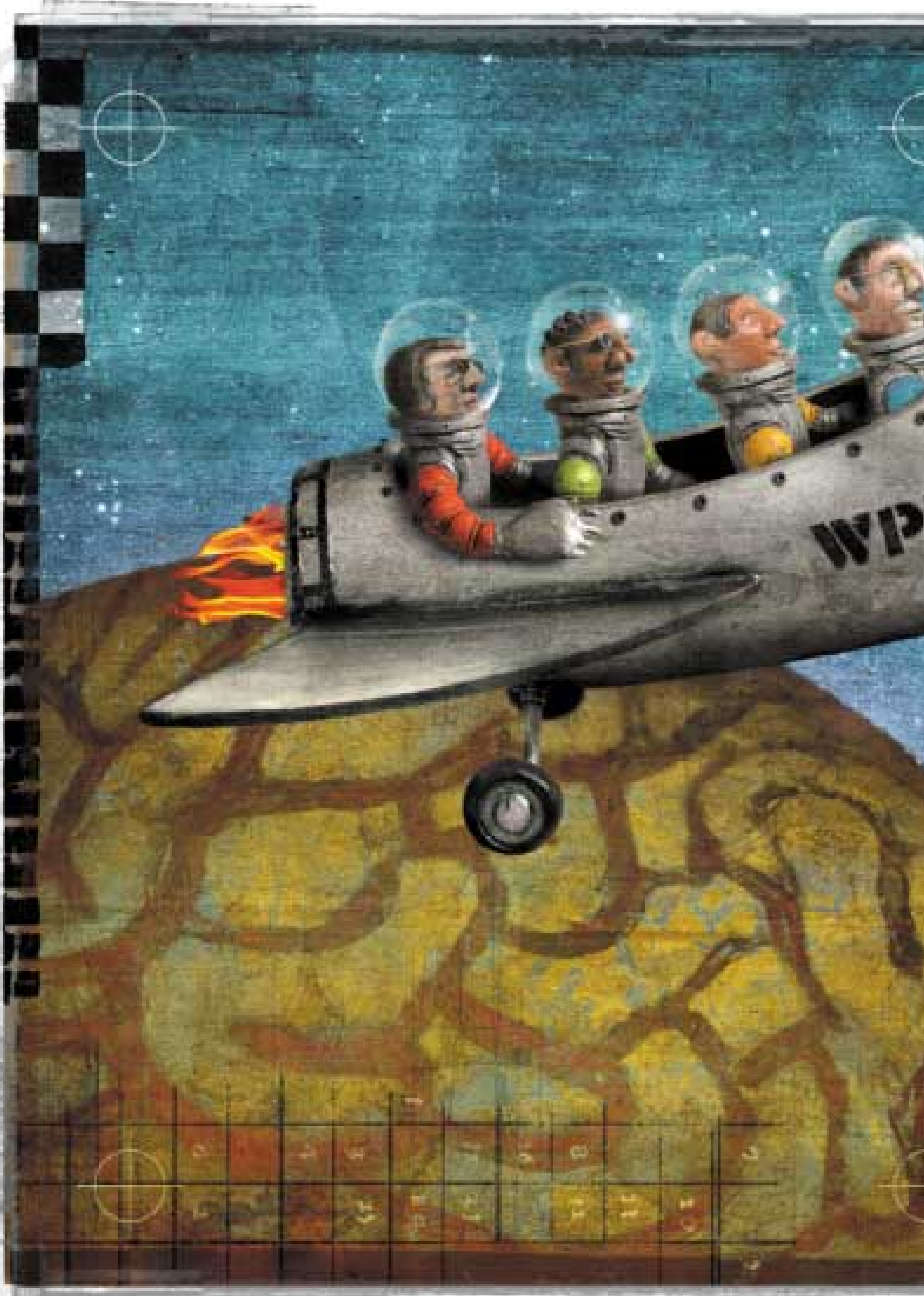
DigiReels
www.digireels.co.uk

The Farm[2]
www.farmpost.co.uk

Metro Group
www.metrobroadcast.co.uk

Spafax
www.spafax.com

[1] Member of Y&R Group
[2] Associate
[3] Minority investment
[4] Joint venture
[*] Member of The Brand Union



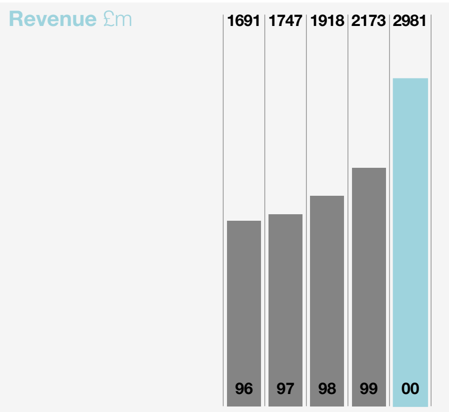
How we’re doing

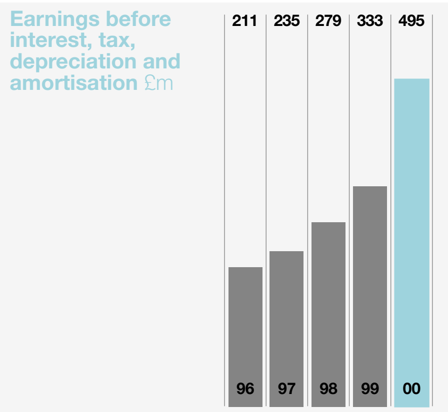
2000 financial summary

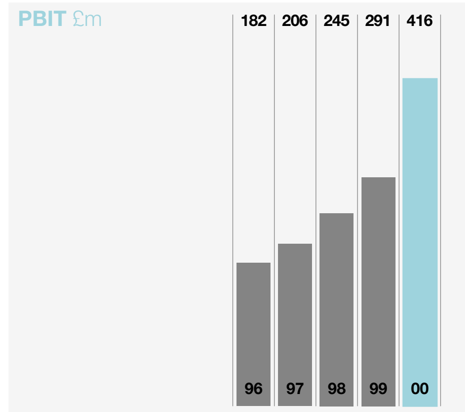
Our 2000 results, which include Young & Rubicam Inc.'s contribution in the fourth quarter, reflect record revenues and profits. Operating margins are in line with objectives, narrowing the gap between ourselves and the very best-performing competition.

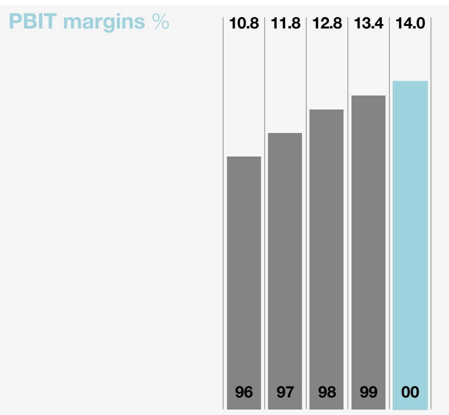
	2000*	1999	Change %
Turnover (gross billings)	**£13,949m**	£9,346m	+49.3
Cost of sales	**£10,968m**	£7,173m	+52.9
Revenues	**£2,981m**	£2,173m	+37.2
Earnings before interest, tax, depreciation, and amortisation	**£495m**	£333m	+48.6
Operating profit	**£378m**	£264m	+43.2
Operating margin†	**14.0%**	13.4%	+0.6
Profit before tax	**£366m**	£255m	+43.5
Diluted earnings per share	**28.4p**	22.5p	+26.2
Diluted earnings per ADR††	**$2.15**	$1.82	+18.1
Ordinary dividend per share	**3.75p**	3.1p	+21.0
Ordinary dividend per ADR††	**28.4¢**	25.1¢	+13.1
Net funds/(debt) at year-end	**£(25)m**	£92m	-127.2
Average net debt	**£423m**	£206m	+105.3
Share price at year-end	**872.0p**	981.0p	-11.1
Market capitalisation	**£9,631m**	£7,598m	+26.8

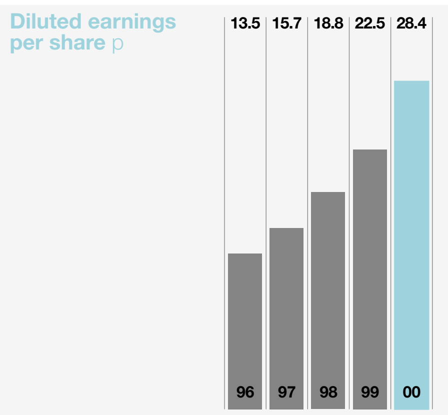
† Including income from associates
†† One American Depositary Receipt represents five ordinary shares. For convenience these sterling figures have been translated to US dollars at the average rate for the period.
* The figures presented include Young & Rubicam Inc.'s fourth quarter results.

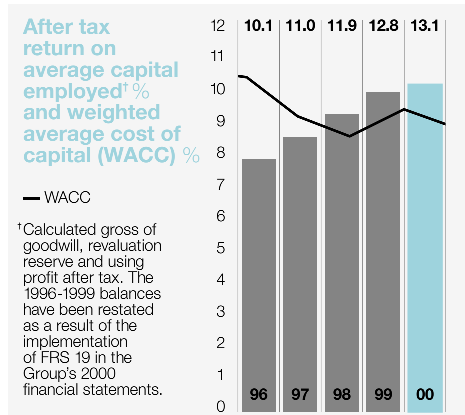

Revenue £m
1691
1747
1918
2173
2981
96
97
98
99
00

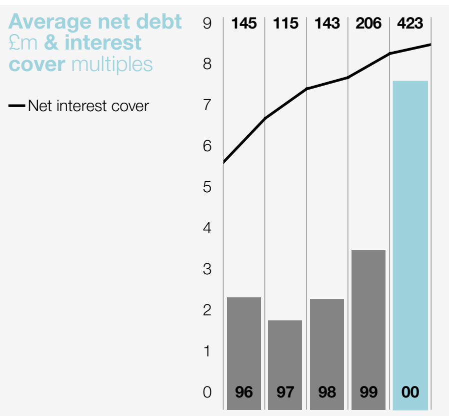

Earnings before interest, tax, depreciation and amortisation £m
211
235
279
333
495
96
97
98
99
00

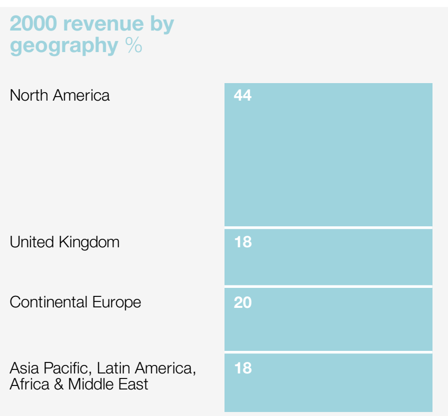

PBIT £m
182
206
245
291
416
96
97
98
99
00

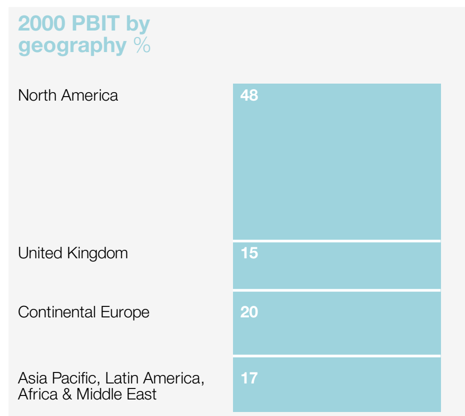

PBIT margins %
10.8
11.8
12.8
13.4
14.0
96
97
98
99
00

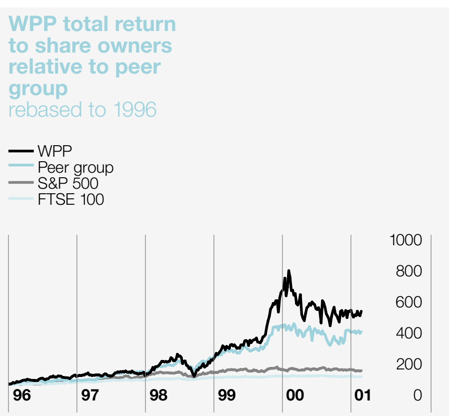

Diluted earnings per share p
13.5
15.7
18.8
22.5
28.4
96
97
98
99
00

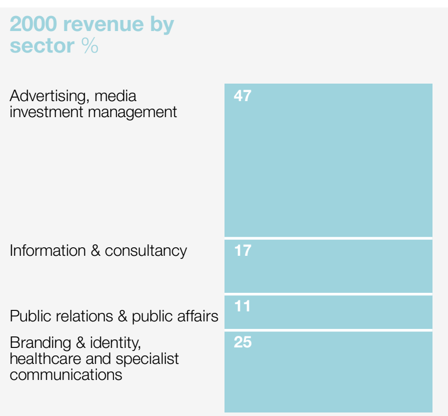

After tax return on average capital employed† % and weighted average cost of capital (WACC) %
WACC
†Calculated gross of goodwill, revaluation reserve and using profit after tax. The 1996-1999 balances have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements.
10.1
11.0
11.9
12.8
13.1
96
97
98
99
00

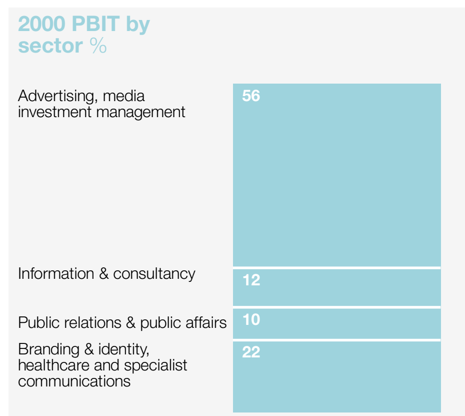

Average net debt £m & interest cover multiples
Net interest cover
145
115
143
206
423
96
97
98
99
00


2000 revenue by geography %
North America
44
United Kingdom
18
Continental Europe
20
Asia Pacific, Latin America, Africa & Middle East
18


2000 PBIT by geography %
North America
48
United Kingdom
15
Continental Europe
20
Asia Pacific, Latin America, Africa & Middle East
17


WPP total return to share owners relative to peer group rebased to 1996
WPP
Peer group
S&P 500
FTSE 100
1000
800
600
400
200
0
96
97
98
99
00
01


2000 revenue by sector %
Advertising, media investment management
47
Information & consultancy
17
Public relations & public affairs
11
Branding & identity, healthcare and specialist communications
25


2000 PBIT by sector %
Advertising, media investment management
56
Information & consultancy
12
Public relations & public affairs
10
Branding & identity, healthcare and specialist communications
22

Dear share owner

2000, our fifteenth year, was another record year.

Turnover was up over 49% to almost £14 billion reflecting strong organic growth, the first time fourth quarter inclusion of Young & Rubicam Inc. and continued rapid growth in our media investment management activities.

Revenues grew over 37% to almost £3 billion for the first time. Pre-tax profits rose by over 43% to £366 million, earnings per share by over 26% to 28.4p and dividends by 21% to 3.75p.

The only disappointment was that the share price, the real measure of your wealth, fell by 11.1% during 2000. However, your Company's share price performance ranks third 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, which are more meaningful given the continued strength of sterling in 2000. On a like-for-like basis, revenues were up by almost 15% and gross profits up 16%, very strong growth, albeit in a quadrennial Olympic and Presidential year; particularly with global inflation at 3-4%. However, growth at such strong pro forma levels is probably unsustainable in the medium to long term. If WPP were to grow consistently at these levels, it would be equivalent to a significant proportion of the current US GDP within 10 years. Double-digit like-for-like revenue growth remains your Company's growth objective.

All our disciplines – advertising; media investment management; information and consultancy; public relations and public affairs; and branding and identity, healthcare and specialist communications – grew strongly. However, with advertising and media investment management growing more strongly than in 1999, the balance between advertising and marketing services remained the same at 47%-53%.

The same strength was seen geographically, but with Continental Europe and Asia Pacific, Latin America, Africa and the Middle East surpassing the US and the UK, as these countries benefited from euro currency weakness and fully-fledged recovery from the 1997 Asian and Latin American recessions.

Operating margins were up by 0.7%, in excess of our objective of 0.6%. Productivity and efficiency again increased significantly as like-for-like revenues grew by almost double the like-for-like increase in staff numbers of 8.0%.

As a result, profit before interest and tax grew by almost 40% to £366 million. Pre-tax profits were up even more at over 40%. We generated £291 million of free cash flow, up over 70% over last year and which was more than absorbed by acquisition payments and investments of £247 million, share repurchases and cancellations of £94 million and dividends of £26 million. Partly as a result, average net debt rose to £423 million, compared to £225 million in 1999 at 2000 exchange rates and the historical target range of £200-250 million. Your Board is prepared to increase net debt further to the range of £400-450 million, if there are sufficient small- to medium-sized cash acquisition opportunities available and there are attractive opportunities for share repurchases. Finally, earnings per share rose by 23%.

2001 will be a more difficult year. The world's stock markets are signalling a recession with no one able to determine whether there will be a hard or soft landing, or whether the recession will be U-shaped or V-shaped or, worst of all, Japanese L-shaped. Softness is also not confined to the technology, media and telecommunications sectors. The 'old' economy, although less affected, is still suffering.

At WPP, reported revenues are up over 73% in the first three months of 2001, reflecting organic growth, the first time contribution of Young & Rubicam Inc., other acquisitions and the strength of the dollar and major Continental European currencies against sterling. On a like-for-like basis, revenues are up 6%. Operating margins are still forecast to grow by one margin point to 15% this year in line with our objectives. Our ability to achieve this will in part depend on our ability to control variable staff costs.

We continue to seek ways of unlocking added value for both clients and our people and proving that there is real value in WPP's strategy. Our goal remains to become the world's most successful, and preferred provider of communications services to both multinational and national companies.

Our six objectives remain as follows:

- First, to continue to raise operating margins to the level of the best performing competition, from 14% last year to 15% this year and to 15.5% by 2002.

We have also indicated that there is life after 15.5%, setting an objective of 20% in due course. Some agencies, such as Dentsu, have achieved this and mini-holding companies, such as McCann, have too – so there should be scope.

- Second, to increase the flexibility in our cost structure to cope with recessions as they develop. This flexibility should act as a 'shock absorber' to protect our margins when revenues are squeezed by an economic slowdown.

Our investment in people and property accounts for approximately 60% of revenues. Variable staff costs, including incentive compensation, freelancers and consultants, now account for 6.6% of revenues and we aim for 7-8%.

- Third, we have achieved our objective of de-leveraging the Company and interest cover of over seven times. Now we have to continue to focus on how we can improve share owner value by maximising the return on alternative investments in capital expenditures, acquisitions and investments, dividends or share buy-backs.

Although capital expenditures have risen recently primarily reflecting Year 2000 issues and property rationalisation, they are unlikely to absorb more than 100-150% of the depreciation charge in the medium and long term.

We continue to trawl carefully for acquisition and investment opportunities and have added resources to our central acquisition team. However, we remain concerned about value in certain markets. We will therefore probably remain primarily active in acquiring strategically important, small- to medium-sized businesses of up to $300 million in value unless exceptional strategic and financial opportunities, such as Young & Rubicam Inc., arise.

Increasing dividends tend to raise the fixed charges in the business and as a result we will continue to favour share repurchases and cancellations as a use of our free cash flow. In 2000 we invested £94 million here, but continue to be committed to a rolling annual buy-back program of a recently increased amount of £150-200 million, equivalent to approximately 1-2% of our share capital. Historical data seems to indicate that programs on this scale have the most significant impact on share owner returns.

Fourth, to advance further the role of the Company from that of a financial holding or investment company (concentrating solely on financial matters such as planning, budgeting, reporting, control, treasury, tax, mergers and acquisitions and investor relations) to that of a parent company that adds value to our clients and our people.

We are focused on the key added-value areas that we have identified – human resources, property management, procurement, information technology and practice development. This work is done by a limited number of 150 or so parent company people in London and New York, with some support in Hong Kong and São Paulo, and including those who joined us from the Young & Rubicam Inc. holding company following the merger.

In the human resources area we continue to develop our short-term and long-term incentive plans, our renamed 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 $600 million in our property, by improving communications, speed of response and efficiency, through new design and layout of our premises.

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 their 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 we are placing greater emphasis on revenue growth. A legitimate criticism of our performance against the best performers in the industry is that our internal organic growth rate has been lower. For the four years up until 1999, we grew organically by approximately 8% per annum, against approximately 10% for the very best of the best-performing competition (although their definition of organic growth is more flattering than ours).

Our objective is to move up to this level by better positioning our revenue portfolio in faster-growing functional areas. Perhaps the results for 2000 are indicative of some success, although one swallow does not make a summer. In 2000 we achieved the highest rate of organic growth for any group at over 15%. If the more liberal definition of organic growth were used, this would have been closer to 19%.

Our practice development initiatives are aimed at helping with this, and acquisitions so far in 2001 – in advertising and media investment management in the US, the UK, South Korea and Brazil; in information & consultancy in Germany; in public relations & public affairs in the US, France and South Korea; and in branding & identity, healthcare and specialist communications in the US, the UK, France, Japan and Hong Kong – are also key.

Information and consultancy, public relations and public affairs and specialist communications currently account for just 53% of our revenues. We would like to see them at $66^2/_3$% in five years.

Similarly, our geographic expansion is aimed at improving our organic revenue growth rate. Despite recent difficulties we still believe that the key growth areas will be in Asia Pacific, Latin America, Central and Eastern Europe, Africa and the Middle East. Currently these areas account for over 18% of our revenues, versus 13% a few years ago. We would like to see them at one-third within five years, equally balanced with North America and Europe.

To achieve this we will expand our strong institutional networks – Ogilvy & Mather Worldwide, J. Walter Thompson Company, Young & Rubicam Advertising, Red Cell, MindShare, The Media Edge, Research International, Millward Brown, Kantar Media Research, Hill and Knowlton, Ogilvy Public Relations Worldwide, Burson-Marsteller, Cohn & Wolfe, OgilvyOne, Impiric, CommonHealth, Sudler & Hennessey, Enterprise IG and Landor in high growth markets or where their market share is insufficient. In 2000, we tackled Australia, Belgium, Canada, China, Denmark, France, Ireland, Israel, Italy, Mexico, the Middle East, the Netherlands, Pakistan, Poland, Portugal, Puerto Rico, Singapore, Spain, Sweden, Switzerland, Turkey and the US. In 2001 there is more work to do in the heartland of Continental Europe – France, Germany, Italy and Spain, for example.

We will also enhance our leadership position in information and consultancy by continuing to develop our key brands with particular emphasis on North America, Latin America and Asia Pacific. 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 Italia, which following even greater success in

the UK and Australia, now have strong representation in 27 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, Impiric, digital@jwt, Alexander Ogilvy, Blanc & Otus and MB Interactive. 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.

● Sixth, and you will be pleased to know our final 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 The Media Edge 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, both tangibly and intangibly, outstanding creative success; 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 organizations 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 initiatives to date can be found on page 91.

Numbers alone – which of necessity make up the essence of an annual report – can only poorly express the creativity, the applied discipline and the infinite diversity that make up your Company. It is, of course, an intensely personal and intensely creative business. Our many clients come to us for the brains and inventiveness of our people. Across the disciplines, around the world, project by project, each assignment is individually undertaken and each solution painstakingly made-to-measure. And when all the hundreds of assignments are totalled up, and expressed as they must be in monetary terms, they deliver the numbers reported here.

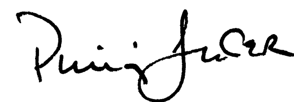
So we would ask you now, as share owners, to look behind those numbers, to remember their origin, to recognise the 65,000 people who work for WPP companies around the world: and to join us in respect and admiration for their talent and gratitude for their dedication. We hope they enjoyed themselves.

It was an outstanding year: and in more ways than can be measured.

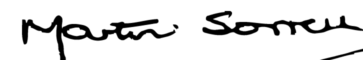
2001, although a more difficult year, should be an even better one.

WPP is delighted that Ambassador Philip Lader has agreed to become chairman of your Company. Businessman, government executive and diplomat, with a wide knowledge of the world, Philip Lader brings with him an unparallelled range of skills and contacts which will be of immeasurable benefit to us and all our operating companies.

At the same time, it is with regret, gratitude and affection that we say goodbye to Hamish Maxwell, our chairman for the past four years. Formerly chairman and CEO of one of the world's largest and most successful companies, he was an outstanding source of wisdom, counsel and kindness. We shall miss him sorely and wish him well.



Philip Lader
Chairman



Sir Martin Sorrell
Group chief executive

Operating and financial review

Competitive performance

There is still a significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies, The Interpublic Group of Companies Inc. ('IPG') and Omnicom Group Inc. ('Omnicom'), achieve 16-18% operating margins, whilst their best-performing individual agencies such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of as much as 20%. This compares to a WPP parent company margin of 14.0% and reported combined margins of the Ogilvy & Mather Worldwide, J. Walter Thompson Company and Y&R Advertising brands of 18%.

Historically, listed public relations companies showed operating margins of more than 10% which have now been more than matched by our own operations. Operating management has indicated that margin performance can be improved further.

The Group is targeting an improvement in operating margin of 1% in 2001 to 15% and 15.5% by 2002, to bring us in line with the best performing of these competitors.

One of the Group's most important objectives is to increase its rate of organic revenue growth which is a key measure of the success of its value-added strategy. Excluding acquisitions, this was approximately 15% in 2000, a rate of growth that, although delightful, is clearly unsustainable in the long term.

Comparison with our competitors is difficult given that, to the best of our knowledge, they define organic growth rates differently absorbing acquisition revenues into organic growth rates more quickly. If we were to use their method of calculation, our organic growth rate would have been closer to 19%. Clients in the high revenue growth areas of information and technology, telecommunications, healthcare, financial services and entertainment and media now account for almost 28% of Group revenues. As a benchmark at the end of 2000 these sectors (excluding healthcare) accounted for approximately the same percentage of the FTSE 100 by market capitalisation.

Geographic performance

Economic conditions in North America are now, to say the least, more challenging. The UK and Continental Europe, however, particularly France, Germany, Italy and Spain are currently stronger, along with Asia Pacific and Latin America. Our fourth quarter performance in 2000 reflected this pattern with the US and UK performing in line with expectations and Continental Europe, Asia Pacific and Latin America performing more strongly than forecast. Recent relaxation in monetary policy on both sides of the Atlantic may stimulate those economies in the second half of the year.

However, it may well be that the real economic challenge may come not in 2001 but in 2002, if lower interest rates and US tax cuts overheat the economy and general inflation and wages rise beyond the rates of 3-4% that we have become used to in the 1990s. Your Board continues to believe that Asia Pacific, Latin America, Africa, the Middle East and Central and Eastern Europe will offer superior opportunities for growth in the medium to long term. These markets now account for more than 18% of the Group's revenue as opposed to 13% in 1992, and more than 20% if our share of associates' revenues are included. These markets are still forecast to continue to grow at significantly faster rates than those of North America and Western Europe in the long term.

WPP, according to the *Advertising Age* Agency Report, ranks in the top three in all of the 10 fastest-growing markets of the world.

Sector performance

On the following pages the heads of our nine operating brands summarise their operational activities and highlights for 2000.

Competitive performance Revenue per head $000

	Year	$000
WPP	99†	126.0
	00†	128.4
O&M/JWT/Y&R/MindShare	99†	112.9
	00†	120.6
Omnicom	99	130.5
	00	124.3
IPG	99	122.0
	00	129.6

†Constant currency

Geographic performance Constant currency revenue growth %

	Year	%
North America	99	16.8
	00	29.8
United Kingdom	99	10.5
	00	22.5
Continental Europe	99	11.0
	00	47.2
Asia Pacific, Latin America, Africa & Middle East	99	4.0
	00	38.2

Sector performance Constant currency revenue growth %

	Year	%
Advertising, media investment management	99	5.2
	00	33.8
Information & consultancy	99	13.9
	00	19.8
Public relations & public affairs	99	30.5
	00	75.6
Branding & identity, healthcare and specialist communications	99	19.2
	00	27.6

PBIT margins %

	Year	%
WPP	99	13.4
	00	14.0
O&M/JWT/Y&R/MindShare	99†	16.4
	00†	17.4
Omnicom	99	16.0
	00[1]	15.9
IPG[3]	99	16.6
	99[2]	16.6
	00	17.9

†Constant currency

Operating margins by geography %

	Year	%
North America	99	14.8
	00[4]	14.9
United Kingdom	99	11.8
	00[4]	11.8
Continental Europe	99	13.1
	00	14.0
Asia Pacific, Latin America, Africa & Middle East	99	11.7
	00	13.8

Operating margins by sector %

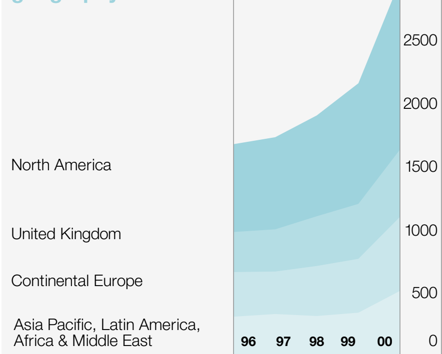
	Year	%
Advertising, media investment management	99	15.4
	00	16.5
Information & consultancy	99	10.0
	00[4]	10.1
Public relations & public affairs	99	13.3
	00[4]	13.1
Branding & identity, healthcare and specialist communications	99	12.3
	00	12.1

Staff cost to gross margin ratio %

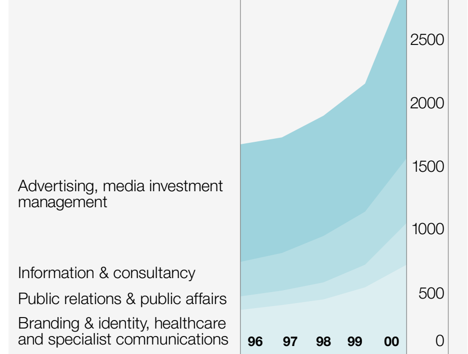
	Year	%
WPP	99	58.8
	00	59.1
O&M/JWT/Y&R/MindShare	99†	56.4
	00†	56.5
Omnicom	99	59.5
	00	59.0
IPG	99	56.5
	99[2]	55.2
	00	55.5

†Constant currency

Revenue by geography £m



Revenue by sector £m



[1] PBIT margin for Omnicom as presented for 2000 is stated excluding the gain on disposal of an investment in Razorfish Inc. of $110m. Including the gain, PBIT margin was 17.7%.
[2] Based on profit and loss restated for pooling of interests.
[3] PBIT margin for 2000 as presented above excludes restructuring and merger costs of $116.1m and Deutsch transaction costs of $44.7m, and for 1999 excludes restructuring and merger costs of $84.2m. After these charges PBIT margin for 2000 was 15.1%, and for 1999 was 14.7% (14.9% as restated for pooling of interests).
[4] Reflects restructuring costs incurred following the acquisition of Young & Rubicam Inc.

Advertising and media investment management

On a reported basis, combined advertising and media investment management revenues at Ogilvy & Mather Worldwide (which was named by *Adweek* the United States Agency of the Year in 2000), J. Walter Thompson Company, Y&R Advertising, Red Cell (formerly Conquest), MindShare and The Media Edge rose by almost 34%. The combined operating margin of this group of companies was 16.5%. Combined operating costs rose by 32% and the combined staff costs to revenue ratio excluding incentive payments fell to 52.6% from 53.7%.

In 2000, Ogilvy & Mather Worldwide generated net new billings of £515 million, J. Walter Thompson Company £373 million and Y&R Advertising (fourth quarter only) £28 million.

Also in 2000, MindShare generated net new billings of £1.5 billion. Plans are being developed to create a 'WPP media' parent company which, like Kantar in information and consultancy, will seek to add value to our clients and our people through 'tribal' co-operation.

Red Cell's revenues rose almost 11% and operating profits and margins were up significantly. Net new billings were £13 million.

Ogilvy & Mather Worldwide

Simply put, Ogilvy had another great year. In a world exploding with new technologies, new media and new global markets, clients are tending to their brands as never before, making Ogilvy more relevant than ever.

We have long been advocates of branding – a principle that goes back to David Ogilvy. Our revival of this philosophy as Brand Stewardship seven years ago both linked us to our past and positioned us for our future. We have since expanded that focus beyond traditional media to encompass every point of contact with the consumer. This has become our guiding star: creating integrated, multi-disciplined, brand-based and consumer-focused communications. That makes *360 Degree Brand Stewardship* Ogilvy's core business strategy and one that fits well with today's marketplace.

What makes our claim solid on this strategy is its pedigree. For decades we have had a multi-disciplined approach with robust direct marketing and public relations divisions, and even a veteran interactive unit. We broke ground in this discipline 16 years ago, and today we are the leading interactive agency in terms of global reach, financial strength, growth (50% in 2000), creativity and innovation. (*Adweek* named OgilvyInteractive its 2000 Integrated Agency of the Year.) These units are the growth engines of our company.

The greatest benefit of our *360 Degree* strategy is that it gives us a unifying point of view – one that takes full advantage of our range of talent and capabilities. For this reason, we continue to expand our services beyond our core strengths to such growing areas as brand consultancy, design, healthcare, mobile communications, loyalty marketing and CRM initiatives. Through the start-up of new units, strategic acquisitions and joint ventures, and our relationships with the WPP family of companies, we are building a *360 Degree* network that is unparalleled.

As a result, I believe the agency is in the strongest position it has been in years. Once again, all regions are performing well, with many key markets – the US, France, India, Philippines, Brazil, Mexico and Guatemala among them – being singled out for local top agency accolades.

Our continued focus on our work has made it better. Certainly we have more offices in more countries contributing to our creative reputation, as attested by another strong year in terms of awards. Importantly, many of these awards came from beyond advertising, and that reflects our growing weight as a creative force in multi-discipline and integrated marketing. All told, our people, our operations and our work netted well over 250 different honours from all industry sectors.

Our client roster continues to be the envy of the industry, including such clients as IBM, American Express, Unilever, Kraft, Kodak, Ford, Nestlé, BP, Telefonica and Terra Networks. Our share across the board with these and other clients has been growing with assignments that are broad and increasingly multi-disciplined.

While growth with existing clients is paramount, last year we added several important new brands, led by the assignment of Motorola's global account. In total, we added close to $1 billion in new billings.

I am very optimistic about this coming year. We have a superb strategy, and we are committed to delivering it – everywhere it counts, in each office, for each client, every day. That's where the promise of *360 Degree Brand Stewardship* translates into success for our clients and for us.
Shelly Lazarus

Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

Peter Schweitzer
President and chief executive officer
J. Walter Thompson Company

J. Walter Thompson Company

J. Walter Thompson continued its strong forward momentum in 2000. We posted one of the best new business, revenue and profit performances in our 137-year history. In addition, we accelerated our transformation to a total communications company by deepening our roster of superior talent and capabilities in every marketing discipline.

Net new billings (in constant currency) won worldwide totalled $615 million. We welcomed a host of new blue-chip clients including Sun Microsystems, KPMG, iPlanet, Spencer Stuart, Foster's Beer, Avon and Telecom Italia. In addition, we were entrusted with significant new assignments from valued current global clients including Ford, Unilever, Nestlé, Diageo/UDV, Qwest, Philip Morris and Pfizer.

Our company generated dynamic growth across the board in every region, led by the United States and Europe. Latin America rebounded strongly after a difficult 1999 and Asia Pacific continued its sustained improvement.

We broadened JWT's global reach and invested in premier resources to extend our service offering in specialised communications. Our network expanded to 311 offices in 155 cities in 90 countries, serving leading marketeers in virtually every category of goods and services.

Our solid financial and creative foundation enabled us to complete more than 20 strategic acquisitions worldwide. Top-flight companies joined our ranks in every discipline with particular emphasis on digital branding, direct response, database and promotional marketing.

JWT now holds majority stakes in: TMI, a full-service agency operating in eight Middle East countries and APCU Thompson Asociados, a general agency operating in six Central American countries. We also increased our stake in one of Israel's pacesetting agencies, Tamir Cohen.

In addition, our line-up of digital and technology communications companies was enhanced with the addition of Tonic 360, San Francisco; Imagio/JWT, Seattle; Coolfire, New York; Interactive Marketing Concepts, Toronto; and Thompson Digital Korea; as well as Go Direct Marketing, a database firm in Toronto and Vancouver.

Our diversified communications and marketing services companies achieved significant growth:

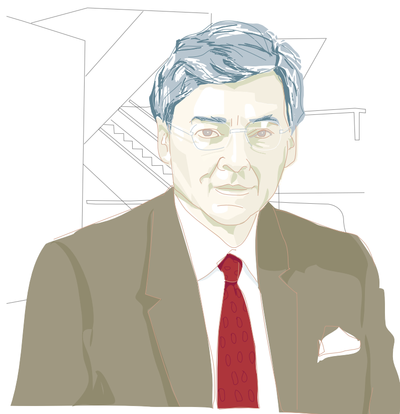
- ThompsonConnect, our global direct marketing subsidiary, with 600 professionals in 15 countries, grew to $76 million in revenue.
- JWT Specialized Communications, our recruitment and employee communications firm, with a global reach of 600 professionals in 34 offices, rose to $75 million in revenue. The group continued to diversify into high-growth areas such as technology advertising and mature market communications.
- digital@jwt, our full-service interactive and digital brand marketing arm, made progress in forging its worldwide network and delivered award-winning work. It is becoming a recognised force in new media, with 450 professionals and nearly $50 million in revenue.

We launched several research initiatives to understand more deeply how people consume communications, extending JWT's renowned heritage of brand learning. These efforts are driving the creation of new tools aimed at providing leading-edge brand communications planning in the year ahead.

In sum, we became a stronger marketing partner better able to deliver integrated solutions for our clients, using our proprietary approach called *Thompson Total Branding*.

The entrepreneurial spirit of our people is our most valuable competitive advantage. Their single-minded focus on great ideas that build relationships between brands and consumers – ideas with the power to resonate across the entire communications spectrum – will ensure our leadership in a marketing landscape whose only constant is warp speed change.

Peter Schweitzer



Mike Dolan
Chief executive officer
Young & Rubicam Inc.

Young & Rubicam Inc.

The year 2000 was a year of great transformation for Young & Rubicam Inc. – a year in which we defined our strategy for the future by joining the WPP Group of companies.

We share a number of key clients with WPP. That makes the transition simpler. But even more important, we share common philosophy and values. Joining WPP will help us deliver the most powerful communications programs to our clients. At the same time, we are confident that our singular 30-year history of building brands through integrated communications will add value to the entire WPP network.

Philosophically, Young & Rubicam fits easily into the Group: Young & Rubicam is a global group of people, disciplines and companies dedicated to bringing our clients the best in commercial persuasion. Our goal is to build powerful, sustainable brands... to move minds, move products and help drive marketplace results.

We often say that our currency is ideas. Ideas that are founded on an exhaustive knowledge of our audiences, executed through the industry's broadest range of communications disciplines. That the essence of Young & Rubicam is knowing when and how to integrate these disciplines to create persuasive messages that can travel the world.

We do it by organising ourselves around our clients – across all disciplines and geography. Our dedicated brand teams give our clients the best of both worlds: the size and muscle of a world leader in marketing and the nimbleness and flexibility of an entrepreneurial enterprise.

In 2000 we reaffirmed this commitment to client focus through several key initiatives. We named Satish Korde president, Client Solutions, in charge of our key corporate accounts, and designated top-management accountability for each of our major clients. Lessons learned at this level resound with all of our clients everywhere.

Some time ago, we coined the phrase, *Best Alone, Better Together*. It's still the best description of what drives our success. Our strength together is predicated on the individual strengths of our partner companies, each a top-ranking leader in its field. Each lending particular expertise to a client problem. Each company profitable in its own right, with its own core group of clients, accomplishments and credentials.

At Y&R Advertising, Ed Vick returned as chairman and CEO, after serving as chief creative officer for Y&R Inc. In this year of change, the agency suffered some difficult and high profile account losses – US Kraft business, United Airlines, Ericsson, KFC, USPS, Ford Europe, among them.

These were counterbalanced by a strong new business momentum. Wins included Computer Associates, Xenical, Pennzoil, Marks & Spencer, Scotts Co., Ford's Land Rover, NASCAR, additional business from Sony, as well as Chanel's global media business. The agency launched a new integrated unit, Brand Buzz, that grew to be a $60 million agency in its first year of operation. In London, Y&R acquired The Partners, a premier brand design firm.

At Y&R's media planning, buying and placement services operation, The Media Edge, important new global product offerings gained momentum in 2000, including The Digital Edge and TME 360, a total communications offering that is acting as a cultural change agent within TME. TME's Media Convergence was created to help clients wade through the dizzying array of interactive media options that are available now, as well as those soon to come. Industry recognition was high: *Advertising Age* named TME the Media Agency of the Year in the US. 'Agency of the Year' honours were also bestowed upon TME Canada and Australia, and numerous awards for people and work marked a strong performance.

At Impiric, new capabilities in consulting, interactive services and customer dialogue were added in 2000. With these forward-looking changes also came the recognition that the company must also be true to its direct marketing roots. New regional leadership at our flagship New York agency and in Europe has already had a positive impact.

At the start of 2001, the appointment of Daniel Morel as the new chairman and CEO strongly positions Impiric for the future.

Under the leadership of Ron Bess, the Diversified Communications Group delivered a strong performance last year.

In 2000, Burson-Marsteller strengthened its commitment to the distinguishing features and initiatives that position Burson-Marsteller as an industry leader. Global capabilities, groundbreaking research, technology focus, and client service have positioned the company for continued growth and innovation.

Notable achievements included an e-fluentials study that identified, for the first time ever, a group of opinion makers who have an exponential influence shaping and driving public opinion through the internet. Three new investments in technology were BM3W, FastForward – both of which returned a profit in their first month of operation – and Speed Branding.

At Cohn & Wolfe, new business came from Orange, Microsoft, Pfizer, DuPont and Sony. The network expanded to include Kendo in Paris and new offices in Madrid and San Francisco, and Cohn & Wolfe was named Best Healthcare Agency in the UK.

At Landor Associates, new brand identities were launched for numerous major clients, including BP, France Telecom, NYSE (the New York Stock Exchange), Delta, Corning, 7UP and bmi british midland. In 2000, Landor also strengthened its network, both in the US, where the company acquired the brand strategy consulting firm of St. James, and globally, with the addition of new offices in Vienna, Dubai and Singapore.

Sudler & Hennessey added Roche business in the US and Europe, as well as a global campaign for professionals for Roche Tamiflu. The network was strengthened by the addition of S&H consumer groups in New York, London and Milan; digital health strategies – Avenue-e – in Milan, Melbourne and Frankfurt; Sentrix global health communications in Short Hills, Paris, Milan and Munich, as well as a Precept education service in Short Hills.

The Bravo Group continued to provide critical marketing services to clients targeting Hispanic audiences in the US. New units of the agency included BravoMed, a healthcare specialty unit; Bravo 2.1, seamlessly integrating on-line and off-line communications, as well as BravoLateeno, which helps clients reach the bi-cultural, bilingual Latino youth segment.

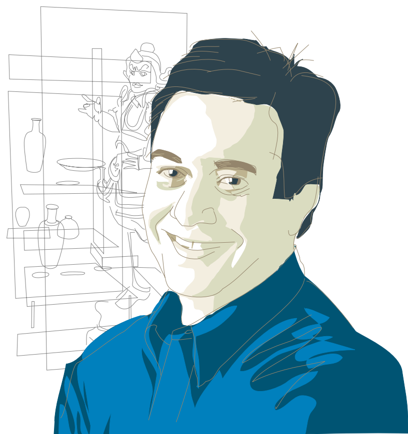
In its 15th year of operation, Kang & Lee went to market with the largest single campaign done by the agency: integrated advertising programs for the US Census Bureau that targeted 13 ethnic groups in 14 languages. Research for the campaign earned the agency the prestigious Ogilvy Research award.

Finally, Young & Rubicam acquired Robinson Lerer & Montgomery, one of the world's premier strategic communications firms.

In joining WPP, Young & Rubicam has made important changes, restructuring the organisation to make us leaner, more focused and better directed. We are a better company than we were a year ago. There is a wonderful depth of talent and commitment that resides in all of our companies across the world.

Raymond Rubicam liked to say that every generation of Y&R would have to reinvent itself for its own time. We have done so in 2000. We enter the 21st century with tremendous confidence about our future, and a real eagerness to demonstrate the power of Young & Rubicam's integrated communications.

Michael Dolan



Luca Lindner
Chief executive officer
Red Cell
(formerly Conquest)

Red Cell

2000 has been a great year for each of the four founding companies of Red Cell: European-based Conquest, US agency Cole & Weber, UK marketing communications group Perspectives and Asia Pacific alliance partner, Batey.

Together, they have created a new global communications network focused on the needs of 'challenger brands.' Individually, each company grew in terms of revenues, awards and client wins, including OCBC Bank and TNT Air Express in Asia, Freight Traders in the UK, Atkins Nutritionals and Nike ACG in the US, Celanese in Germany and Grapes Telecom across Europe.

To deliver global brand building communication solutions, Red Cell employs fundamentally new rules of engagement, consciously seeking deep and broad creative talent and having at its core the capability to react quickly and effectively to shifting market opportunities. A thousand talented people in Düsseldorf, London, Milan, Paris, Seattle, Singapore and 16 other key business centres, work locally or globally for brands such as Alfa Romeo and Ermenegildo Zegna.

Most agencies have the fundamental skills to work for a variety of clients and established agencies have proven to be highly successful for established brands.

Our business focus is different. Challenger opportunities – people, brands, or companies in need of rapid change – are seeking a new breed of agency. Red Cell's singular focus is to deliver global communication strategies for these challenger opportunities.

A challenger brand can be a fast growing private company in the luxury business or financial service market, or a group of managers within a large multinational fmcg corporation with a need to revitalise an existing brand. It is not about size, but rather the brand attitude and life cycle condition that defines challenger brands.

At Red Cell we use *BrandStorm* to provide clients with fresh and challenging solutions to their business opportunities.

BrandStorm is an inclusive forum which empowers clients, account and creative managers and planners to work collaboratively from the outset of a project. This 'collective partnership' mentality delivers results in half the time typically experienced with conventional agencies.

Finally, at Red Cell we believe that in a globalised and internet-connected world there is a fantastic opportunity to work with the best talent in the world. The location and employment status of talent is increasingly irrelevant. We are building a community, *The Eclectic Network*, of exceptional creatives, financial analysts, brand architects, and individuals from the movie industry, all with proven communication and brand building skills – Sir Bob Geldof being an excellent example. Every Red Cell partner in charge of a client's brand will have the ability to leverage the gold mine of talent represented by *The Eclectic Network*.

Luca Lindner

Irwin Gotlieb
Chairman and chief executive officer
MindShare

MindShare

In 2000, MindShare continued to dominate the media marketplace as the world's largest media investment management company with annual billings growing to $20 billion, and global new business wins of $2.6 billion.

As MindShare Worldwide enters its fourth year as a stand-alone media investment management company, we are distinguished by our depth of talent around the world, the sophistication of our research and systems, our strategic capabilities and the power of our media investment clout in almost every market in which we operate.

Because of our global size, we are able to invest efficiently in research and systems initiatives that benefit the entire organisation and provide us and our clients with proprietary insights to the ever-changing media landscape and how consumers everywhere interact with media. As media convergence becomes a reality, MindShare is taking a leadership role in bringing to our clients all that technology offers.

MindShare's position as the largest global media network was solidified in 2000 with the launch of MindShare North America. In the US, MindShare quickly established its leadership in the market with several significant new business wins that truly united our operation. These wins include the consolidated media accounts of major clients Unilever and Sears.

By bringing together a management team that represents the best and brightest in all aspects of media investment management, MindShare US earned the moniker 'LionsShare' by trade publication *Advertising Age* in 2000. The US operation has offices in nine cities and first-in-class local and national broadcast capabilities, in addition to research, strategic, non-traditional, promotion, and new media offerings.

In addition to our success in the US, MindShare experienced significant growth in Europe, Asia and the growing Latin American market. Dominic Proctor, our chief operating officer, has been integral to the roll-out worldwide. We have attracted several top media executives from our major competitors in Europe, Asia and Latin America, and had an equally impressive new business run in these regions. Major new regional clients include Nike and Volvo signing on with MindShare Europe, Terra giving us assignments in Mexico and Hang Seng Bank awarding MindShare Hong Kong its business. We've also had important local wins such as Allianz in Germany, Bass in the UK, National Lotteries in Sweden and Belgium, and Kraft in Italy, Greece and the Czech Republic.

Media consolidation continues to be the trend that drives much of our regional and global growth. Numerous new clients awarded MindShare their global media business, including Boots, easyEverything, KPMG and Lufthansa.

As we look forward, key growth will come from additional media consolidations as well as the development of our unique specialist offerings that set us apart in key regions of the world. Our ATG research systems represent a truly global proprietary initiative. Our revolutionary MindCast operation creates television content for clients in China, and soon in Japan and Thailand. M-Digital provides interactive competency and capabilities that will be critical as we evolve to a converged environment, and already accounts for more online billings than any other agency in the world.

We see the next year as one in which we continue to break new ground in bringing new media solutions to our clients around the world and to lead the industry in the development of innovative research and systems. With the professionals we have in place around the world, MindShare is poised to continue its leadership position in all areas of media investment management.

Irwin Gotlieb

David Jenkins
Chief executive officer
The Kantar Group

Information & consultancy

The Group's information and consultancy businesses continued their strong revenue growth with gross profit rising by almost 20% and operating margins up slightly over the previous year. Particularly strong performances were recorded by Millward Brown in the United States, United Kingdom, Germany, Hungary, the Czech Republic, Singapore, Japan and Australia; by Research International in the United States, Germany, Greece, Japan, South Africa and Brazil; by Kantar Media Research at BMRB in the United Kingdom; by IMRB in India; and by Goldfarb Consultants in Canada, Italy and the United Kingdom.

The Kantar Group

Last year I talked of 1999 being a year of laying foundations to better serve our clients' needs and to seize the opportunities presented to our industry by e-commerce and the internet. I am pleased to report that in 2000 we saw payoff for much of that preparatory work with organic revenue growth ahead of the market and strong operating margin improvement. This organic growth was supplemented by the successful integration and development of our major 1999 acquisitions. During 2000, we acquired SIFO, the largest research company in Scandinavia, as part of Research International, and Ergo, the largest qualitative research company in Spain, as part of Millward Brown.

Research International's major initiative last year was its Project 100 program. Designed to improve service levels to major global and important local clients, Project 100's watchword is *focus*... focus on key clients, where Key Account Directors have been appointed for the top 40 clients, and focus on core areas of research expertise.

Operationally, RI's critical mass in the US market was improved by its merger with the Winona Group, a strong but previously self-standing business within Kantar. This merger has successfully produced one company with the resources to compete more effectively than either could separately.

Center Partners, acquired in 1999 as our entry into out-sourced call handling for technology and telecommunication companies, won major contracts during the year and is now the fastest-growing part of our business.

Millward Brown had an outstanding year in its two major units in the US and UK. In the US, the integration of IntelliQuest, acquired in 1999, was achieved successfully and going forward IntelliQuest will form the core of MB's technology research expertise. In the UK, the focus on branding knowledge based on the BrandDynamics system successfully repositioned the company higher up the client value chain.

Kantar Media Research continued to expand the geographic reach of its Target Group Index media-planning tool, which is now available in 30 countries. AGB, in which WPP holds a significant minority interest, won the UK Television Audience Measurement contract, a tremendous victory over the long-term incumbent.

BMRB, in the UK, was awarded prestigious contracts by the UK government for major social policy studies in areas such as health, citizenship and the criminal justice system.

Goldfarb Consultants strengthened its presence geographically, bringing on stream a West Coast office in the US, and functionally through gains in pharmaceutical and financial research in Canada.

Sadly, our business success was marred at a personal level by the unexpected and untimely death of Ramesh Thadani, the head of IMRB, our Indian company. Ramesh was a successful business leader, but an even finer man. As his legacy, he leaves behind a strong, intellectually vibrant organisation in IMRB.

2000 was an interesting year for internet research. Along with everyone else, we observed the dotcom bust, but in fact our internet revenues doubled as our traditional blue-chip clients turned to us for internet-based research, and we are forecasting a continuation of this trend.

This, I believe, is and will be the ongoing competitive strength of Kantar versus internet start-ups. Our operating companies are valued by our clients not as data collectors, but as trusted advisors to turn to as the nature of their industries and ours change. We will ensure that Kantar continues to provide the skills needed to meet these changing needs.

David Jenkins

Public relations & public affairs

The Group's public relations and public affairs activities continued to advance strongly.

Hill and Knowlton's revenues rose by more than 31% and operating costs by more than 29%. As a result, margins increased to almost 13%, ahead of previously established targets.

Revenues at Ogilvy Public Relations Worldwide (which was named both by *PR Week* and *The Holmes Group* as 'Agency of the Year') rose by almost 61% and operating costs by approximately 59%. For the fourth year in a row following the change in leadership, profitability improved significantly over the previous year.

In the final quarter of 2000, Burson-Marsteller's revenues rose by more than 8% and Cohn & Wolfe's by more than 31%. Robinson Lerer & Montgomery, which was acquired by Young & Rubicam Inc. in the first quarter of 2000, made a strong first time contribution to the Group.

Our public relations and public affairs businesses as a whole showed operating margins of more than 13%, in excess of the Group's objective for 2000 and in line with the best-performing publicly listed comparables. Operating management has developed new three year plans that indicate further significant improvement in operating margins.

Hill and Knowlton

In a record year for the firm, Hill and Knowlton reaffirmed its commitment to a tradition of quality client service, industry leadership, and breadth and depth of resources. Significant organic growth and targeted acquisitions combined to help H&K exceed its goals for the year. Accommodating client growth needs and market demand, worldwide additions included Gaia (Italy), SocketPR (US), The Rockey Company (US), H&K Berlin, Hiller Wüst (Munich), RPCA (Paris) and Vox Consulting (Argentina).

H&K continued to be the agency of choice particularly with organisations seeking global reach and expertise such as Motorola, Compaq, Ernst & Young and the International Olympic Committee. The firm's worldwide reputation in crisis and issues management was best summed up in Olympic newsletter *Around the Rings*, which named Hill and Knowlton as among the most influential groups within the Olympic movement.

Ford Motor Company stepped up its PR business throughout the system as well as expanded its work with H&K's exclusive television and movie product placement firm, Showcase International. Asia Pacific continued to dominate the M&A work in that region.

Indicative of its public affairs and energy specialisations, H&K Canada, augmenting WPP's privatisation expertise, developed a fully integrated government, media and community relations program on behalf of client British Energy assisting in the privatisation of the Bruce Nuclear facility of Ontario Hydro.

Hill and Knowlton's technology practice, led by Blanc & Otus Public Relations, represents industry leaders around the world, from communications giant BT, to internet expert Ariba, and on to digital entertainment pioneers TiVo and LivePlanet. Each has turned to H&K for powerful public relations services that change market behaviour or opinion, redefine existing markets or create new ones, or simply establish lasting leadership positions.

Similarly, as part of the wpp.com initiative to improve Group company

Howard Paster
Chairman and chief executive officer
Hill and Knowlton Worldwide

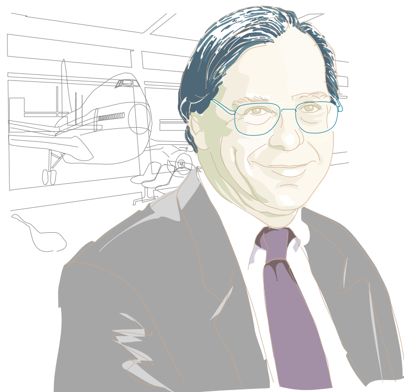
interactive communications capabilities, Hill and Knowlton formalised the global Netcoms practice, providing clients with cutting edge internet, extranet and intranet services and strategies. The practice has created online communications programs for clients such as the BT Global Challenge yacht race, the California olive industry, and Roche treatments for AIDS and Hepatitis C.

The year was marked by bellwether initiatives specifically engineered to enhance quality client service. Such offerings included the launch of the Medical Knowledge Group throughout Europe, Canada and the US, and the development of PRecision™, a toolbox that delivers against the age-old conundrum of measuring and evaluating PR, as well as targeting and benchmarking. A Group collaboration, developers included a working group of H&K, and WPP partners Millward Brown, Millward Brown Precis and MindShare's Advanced Techniques Group.

Benchmarking internal and external perceptions, the firm again participated in two major transnational studies: the Thomas L. Harris/Impulse Research Employee Satisfaction survey and the Corporate Reputation Watch survey conducted by Yankelovich and *Chief Executive Magazine*, targeting the chief executive officer to raise the visibility of corporate reputation among senior managers and boards of directors.

In recognition of its achievements, H&K scooped the *PR Week* Awards for Best Business Campaign 2000 for its work for Europe's leading B2B provider of 'e-construction' services, BuildOnline. As well, H&K Hong Kong's technology practice won 'Technology Campaign of the Year' for its work on launching internet currency – beenz – into the Greater China market.

Howard Paster



Bob Seltzer
Chairman and chief executive officer
Ogilvy Public Relations Worldwide

Ogilvy Public Relations Worldwide

2000 was a year of strong growth, award-winning programs and unprecedented change in the marketplace. During 2000, we:

- Were named 'Agency of the Year' by both *PR Week* and *The Holmes Group*.
- Grew organically by 35%.
- Tripled in size in three years, going from $55 million in 1997 to $169 million, and codified our position as one of the industry's fastest-growing firms.
- Expanded geographically to 51 offices by opening Ogilvy PR locations in Bucharest, Colombo, Düsseldorf, Frankfurt, Hyderabad, Istanbul and Sydney.
- As a result of our integration efforts and synergy, all three specialty units grew significantly faster as integrated units than they did as independents – Feinstein Kean Healthcare (acquired in November 1999) grew 48.6%, B|W|R (acquired in October 1999) grew 22.2% and Alexander Ogilvy (acquired in October 1998) grew 43.2%.
- Ranked third in size globally in the healthcare, consumer and technology arenas, according to the Council of PR Firms.
- Won nine *PR Week* Awards and six CIPRAs in 2000 (the most of any firm).

We continued to have one of the lowest client turnover rates in the industry and added key brand names to our roster, such as BP, Kodak, Tricon, Boehringer Ingelheim, Kimberly-Clark, Microsoft and Merrill Lynch.

Growth happened across each of our five practices, with the technology practice leading the way with a 44.2% growth rate in 2000.

In a marketplace bolstered by opportunity, and the talent to fulfill those opportunities difficult to find, we launched a critical initiative in 2000 to *Attract, Grow and Keep the Best People* (affectionately known as AGK), which helped us reduce turnover by 30% and attract 400 new staff members. AGK components included the introduction of an employee work-visit program; professional development fund;

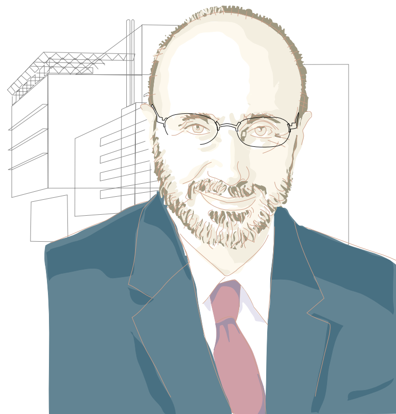
O-village (our newly launched company-wide intranet); internal job posting database and enhanced training and knowledge sharing through Client Service College, Tech Boot Camp, our Core Curriculum and mandatory Management Skills Training. Our anniversary celebration on 3 September 2000 also helped us build a deeper appreciation of our Ogilvy heritage.

Our efforts to provide full global capabilities to clients progressed significantly, aided in large part by O-village. Its state-of-the-art search function allows any employee anywhere in the network to access knowledge and resources within seconds.

Ogilvy PR is well positioned to meet the challenges of 2001, which will be driven by an economy very different to that of the past several years. Nonetheless, we will continue to grow by expanding geographically, positioning ourselves as leaders in the fastest-growing industries, expanding client relationships, broadening our offerings, fostering employee development and enhancing our approach to client service.

We enter 2001 ready to face the challenges and opportunities clearly ahead of us.

Bob Seltzer



John Zweig
Chief executive officer
Branding & identity, healthcare and specialist communications

Branding & identity, healthcare and specialist communications

Branding and identity, healthcare and specialist communications revenues rose by more than 27%. Although gross profit rose even more strongly, operating costs rose faster, resulting in overall operating margins declining by 0.2 margin points, chiefly due to margin erosion at our healthcare operations. Several of our companies in this sector performed particularly well including in promotion and direct marketing – Einson Freeman, OgilvyOne, A Eicoff & Company; in identity and branding – Addison Corporate Marketing, Brouillard, Banner McBride, BPRI, Coley Porter Bell, Lambie-Nairn, Scott Stern and Enterprise IG Group; in healthcare – The Shire Hall Group; and in other specialist marketing resources – The Henley Centre, pFour Consultancy, Management Ventures, Metro, The Farm, The Geppetto Group, JWT Specialized Communications and Perspectives Red Cell.

In 2001 this communications services sector will be split into three parts for strategic (but not share owner reporting) purposes – first, branding and identity, secondly, healthcare and finally specialist communications.

Since its formation and before it was in vogue, WPP recognised the potential of marketing specialists to play a highly valued role and to produce a concentrated impact on our clients' businesses. Over recent years, our strategy has evolved beyond the simple acquisition of new specialist capabilities, which for the most part still characterises the approach of our competitors. With ventures like CommonHealth, first, Enterprise IG more recently, and now the Brand Union in 2001, we have demonstrated how co-operative ventures can create scale and industry leadership accessible to even the smallest of our specialist units. These 'focused clusters' of complementary companies are proving more attractive to clients, creating a more sustainable competitive advantage, and proving the membership benefits of WPP.

Some of the specific accomplishments in our two most sizeable sectors, as well as a few key events among our other specialist companies, are summarised below.

The Brand Union

The goal of the Brand Union is to build a group of leading consulting brands capable of meeting all the brand, identity and design needs of the world's most demanding brand owners.

It comprises Enterprise IG; the newly formed 'brand experience' offering Enterprise XP, which brings together in a single network Banner McBride, Clever Media, Eurosem and The Clinic. Also within The Brand Union are some of the strongest independent brands in our industry – Addison Corporate Marketing, BDG McColl, BPRI, Coley Porter Bell, Dovetail, The Henley Centre, Lambie-Nairn, Oakley Young, WalkerGroup and newly acquired Warwicks.

Some highlights:

- Enterprise IG grew from eight offices to 17 worldwide and set in motion plans to open several new offices in 2001.
- Client assignments include the merger of Qwest and US West, programs for Ford Motor Company, Guardian Media Group, Holderbank, Merck's Vaccine Division, Merrill Lynch Investment Managers and Westvaco; many of these client assignments are serviced through Group partnerships with our worldwide advertising networks, J. Walter Thompson and Ogilvy & Mather.
- Addison continued to build its reputation as WPP's corporate marketing arm through stakeholder engagement programs for Novartis and Syngenta together with the naming and rebranding of Caradon to Novar.
- Tutssels, the award-winning London-based consumer brand design consultancy, joined the Enterprise IG network late in 2000.
- Banner McBride launched its *Brand Engagement* offering which led to programs with Gala Bingo, Getronics and One 2 One.
- BDG McColl's environmental design projects included work for American Express, Argos and KPMG.
- Coley Porter Bell more than doubled its profitability, and many of the business wins came from non-packaging projects including Ford and Jersey Tourism.
- Lambie-Nairn continued to dominate the broadcast design sector and moved into telecommunications, securing clients like ntl and eircom.

Among the awards won were gold in Creativity 30 (Enterprise IG), silvers in the D&AD and Promax/BDG (Lambie-Nairn for BBC identity and design work); and gold and a silver at the New York Festivals (Clever Media for Getronics video).

CommonHealth

In a year dominated by consolidation among many of the global pharmaceutical companies, the world's leading healthcare communications network, CommonHealth, further expanded its range of capabilities and reach into the marketplace.

CommonHealth's core platforms span the spectrum from professional to consumer advertising, relationship marketing, market research and medical education. Beyond that, the network offers clients specialised expertise in brand identity and design, experiential marketing and ethnic marketing through joint ventures with sister WPP companies. In 2000 CommonHealth announced four such partnerships and launched two new operating companies – noesis, a full service medical advertising agency; and an agency uniquely focused on patient-physician communications, MBS/Vox, that was created as an alternative to the reconstructed reality of focus groups. A US joint venture was also formed with Shire Hall Group, a leading UK-based healthcare public relations agency within WPP.

CommonHealth's philosophy of nurturing discipline-specific companies served the organisation well in 2000 as newly merged pharma companies increasingly sought to consolidate accounts with a single resource. We also took advantage of the outsourced-marketing trend, forming an alliance with a leading contract sales organisation to take on the marketing of brands that otherwise would not be significantly promoted.

In 2000, CommonHealth companies continued to build blockbuster brands like Procrit (Ortho Biotech division of J&J), Avandia (GlaxoSmithKline) and Schering-Plough with the introduction of its new antihistamine, Clarinex. The organisation picked up major new business assignments – Becton Dickinson, Knoll Pharmaceutical, Ortho Dermatological, Ortho-McNeil Pharmaceutical, Inc., Novartis, Parkstone Medical Information Systems, Inc., Ross Laboratories, Sanofi-Synthelabo and Schering-Plough – and saw a major introduction, Bristol-Myers Squibb's Glucovance.

Technology was a focal point as WPP made minority investments in Medical Broadcasting Company (MBC) and CommonHealth formed strategic alliances with Pedagogue Solutions and SoftWatch.

Other specialist communications

- WPP acquired Spafax, the leading inflight entertainment company and creators of award-winning programming on behalf of such clients as British Airways, Air Canada, Singapore Airlines, Delta, China Airlines, among others.
- The Première Group, a sports and entertainment marketing resource, also joined the WPP group of companies.
- A 49% stake was acquired in UniWorld, which was named 'Agency of the Year' by *Black Enterprise Magazine* for being the largest multi-cultural agency in the US. New clients included Motorola, Home Depot, and the NAACP Voter Registration Campaign which helped achieve the greatest African American voter increase in US history.
- Mendoza Dillon was awarded the 'Partners in Progress' award from Sears, a distinction achieved in three of the last four years.
- RTC was recognised by *Advertising Age* as the largest marketing communications agency in Washington DC.
- pFour Consultancy had a remarkable growth year, with fees having doubled in size since its acquisition by WPP two years ago.

John Zweig

wpp.com

To date wpp.com, WPP's internal new media parent company, has concentrated on strengthening its existing operations, acquiring new activities in areas which we think are critically important, investing in start-up companies with whom we wish to partner and spreading knowledge of technology developments throughout the Group. We have continued to use wpp.com as a way of strengthening the digital capabilities of our operating companies.

Overall the effectiveness of this strategy has strengthened for three reasons. First, staff turnover rates within our interactive business fell significantly during the second half of the year with people whom we had previously lost returning to the Group. Secondly, valuations have fallen, making smaller interactive acquisitions more attractive. Finally, our reliance on traditional companies as our main source of internet and new media revenues has enabled us to continue growing revenues and profits beyond expectations.

The merger with Young & Rubicam Inc. has brought with it strong interactive capabilities, notably at The Digital Edge, Burson-Marsteller, Landor and Impiric. Notable features during 2000 included the growth of OgilvyInteractive, organically and by acquisition, into the leading global web development agency and its recognition by *Advertising Age International* as Interactive Agency of the Year; the development of a strong interactive capability within Impiric; the integration of IntelliQuest and MB Interactive; the establishment of Lightspeed as Kantar's internet panel with more than 500,000 panellists by year end; the acquisition of a minority stake in Medical Broadcasting Company (the leader in web development strategy and implementation for pharmaceutical companies); the acquisition of a number of technology firms (including advertising and public relations specialist Imagio and e-commerce firm Imaginet) to strengthen J. Walter Thompson Company; the establishment of Y&R 2.1 and the flotations of Concept! and Syzygy on the NeuerMarkt in Germany.

Our pure internet revenues (web-based work) for 2000 were ahead of budget, over 100% up on 1999 and reached $293 million. These figures exclude our share of revenues generated by minority and associate companies such as Syzygy, Concept! and Inferentia. Our budgets for 2001, using the same narrowly based definition of interactive work, show growth rates in excess of 25%, fuelled by the continuing growth in the importance which traditional clients attach to developing new channels and their desire to integrate those channels.

MindShare Digital, digital@jwt, Kantar, Blanc & Otus, OgilvyInteractive, The Digital Edge and Impiric continue to budget strong increases in revenues for 2001 – despite a softening in market conditions and longer sales cycles.

One or two of our companies in public relations which have benefited significantly from start-up dotcoms expenditure are budgeting lower revenue growth. Our interactive operations, whose margins are similar or ahead of those of the Group as a whole, are likely to be strengthened further as a result of not having to deal with high turnover rates and the associated direct and indirect costs.

Major clients of wpp.com include Accenture, American Express, Ameritrade, Ariba, AT&T, Boots, Citibank, Covisint, the Diamond Trading Company, DoubleClick, easyEverything, El Sitio!, Ericsson, FedEx, Ford Motor Company, IBM, Instinet, iPlanet, Kimberly-Clark, Merrill Lynch, MindSpring, Motorola, Nestlé, NextCard, Nike, ntl, Qwest, SAP, Sears, Siemens, Sony, Sun Microsystems, TiVo, Unilever and Ziff Davis.

Despite the turmoil in the markets, technology is playing a growing role in the way we develop our business. For example, research can be implemented more cost effectively and offer clients valuable results more quickly. In addition, it can streamline work processes in our advertising and media investment management businesses and help us tap into global capabilities in a more structured way.

Finally it extends the effectiveness of our relationship marketing capabilities. We continue to pursue aggressively ways of incorporating technology into the operating processes of all of our businesses.

Our interactive equity investments have been made directly and indirectly through venture funds. The aim of these indirect investments has been to keep abreast of developments and identify potential client relationships, thus enhancing our core capabilities.

Historically, the prime venture funds through which we have made indirect investments have been Allegis Capital LLC, previously known as Media Technology Ventures, and Wit Capital's Dawntreader II fund. The value of our investments in these funds has obviously declined over the past few months but is still ahead of its original cost.

We have only made two direct investments in the past few months as we are concentrating on consolidating the investments which Young & Rubicam Inc. had made and building closer relationships between our operating companies and our existing minority investments.

We continue to see interesting opportunities for investments and outright acquisitions, made easier by the fall in valuations and the desire for start-ups to partner with traditional companies such as ourselves.

Group financial performance

Turnover was up 49% to £13.9 billion (reflecting in part the growth of media investment management), revenues up over 37% to £2.981 billion and gross profit up over 47% to £2.736 billion. On a constant currency basis, revenues were up almost 33% and gross profit up almost 43%.

Operating profit (excluding income from associates) rose by over 43% to £378.0 million from £263.5 million and by over 40% in constant currencies.

Profit before interest and tax was up 43% to £416.0 million from £290.8 million and up almost 40% in constant currencies.

The Group's tax rate on profits was 30.0%, the same as in the previous year.

Diluted earnings per share rose over 26% to 28.4p from 22.5p. In constant currency earnings per share rose by 23%.

The Board recommends an increase of 21.4% in the final dividend to 2.55p per share, which will be paid in the form of an ordinary dividend, making a total of 3.75p per share for 2000, a 21% increase over 1999.

Operating margins

Reported operating margins (including income from associates) rose by 0.6 margin points to 14.0% in line with objectives and by 0.7 margin points on a constant currency basis.

The margin gap between the very best-performing competition and ourselves continues to narrow.

Operating margins before short and long-term incentive payments (totalling £118.0 million or over 22% of operating profit before bonus and taxes) rose to 17.9% from 16.7%. Reported operating costs including direct costs rose by more than 36% and by 32% in constant currency.

The Group's staff cost to gross margin ratio excluding incentives fell to 54.8% from 55.0%.

Variable staff costs as a proportion of total staff costs have increased over recent years to 12.1% and as a proportion of revenues to 6.6%. This has resulted in increased flexibility in the cost structure.

The task of eliminating surplus property costs has been achieved over the last eight years. Over 650,000 sq ft with a cash cost of approximately £14 million per annum has been sublet or absorbed.

Like-for-like performance

On a like-for-like basis (including Young & Rubicam Inc. for the final quarter of 2000), revenues rose by almost 15% and gross profit was up almost 16% on 1999. Total operating and direct costs were up over 14% on the previous year. Staff costs excluding incentives rose by over 15% and salaries by over 14%.

On a constant currency basis, pre-tax profits were up over 40% reflecting the weakening of sterling against the dollar, counterbalanced to some extent by strength against the euro. If sterling had stayed at the same average levels as 1999, pre-tax profits would have been £360.0 million.

Headcount

Our staff numbers averaged 36,157 against 27,711 in 1999, up 31%. On a like-for-like basis, average headcount was up 2,767 to 36,157 from 33,390, an increase of 8%. At the end of 2000 staff numbers were 51,195 compared with 29,168 in 1999.

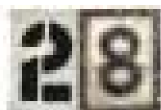
Manufacturing

Revenues and operating profit were up slightly at the Group's manufacturing division.

Parent company initiatives

Increasingly, WPP is concentrating on its mission of the 'management of the imagination', and ensuring it is a big company with the heart and mind of a small one. To aid the achievement of this objective and to develop the benefits of membership of the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development.

Ten practice areas which span all our brands have been developed initially in media investment management, healthcare, privatisation, new technologies, new faster growing markets, internal communications, retailing, entertainment and media, financial services and hi-tech and telecommunications.



Management stock ownership

As part of the Group's 100, 300 and High Potential club programs of management stock ownership, stock options have been granted each year since 1995 to those people with the most significant responsibility for the success of our businesses. Beginning in 2001, these programs will be known as WPP Leaders, WPP Partners and the WPP High Potential Group and will be expanded in response to the significant growth of the Group. In addition, 50% of all awards to all participants in operating company long-term incentive plans will continue to be paid in WPP restricted stock.

In 1997, WPP launched the Worldwide Ownership Plan to give all our people an opportunity to share in its success through stock ownership. Options have been granted annually under this program to approximately 18,000 people worldwide, and in 2001 the program has been extended to all eligible Young & Rubicam Inc. people.

Including outstanding options, interests in WPP restricted stock, stock already owned and holdings of the Employee Stock Ownership Plan, people working in the Group currently own, or have interests in, in excess of 71 million ordinary WPP shares representing over 6% of the Company, or approximately $750 million.

However, your Company is still at a significant competitive disadvantage relative to major competitors in the US, in relation to the availability of stock to promote equity ownership. Omnicom and IPG, for example, have historically issued 15-20% of their total share capital in the form of stock options or restricted stock. Beginning in 2001, your Company will be increasing the level of stock option grants to meet this competitive standard but will not exceed a total dilution level of 13% over any 10-year period through 2006, consistent with our commitment to UK institutional investors in June 1999.

The Leadership Equity Acquisition Plan (LEAP) was approved by share owners on 2 September 1999. Twenty-two executives of the Group have been invited to participate in the plan. These participants will acquire or have acquired 3.5 million WPP ordinary shares, currently worth over $40 million, and have made a commitment to retain them until September 2004. One-third of these share purchases has been or will be made in cash or earned bonuses, the other two-thirds being in committed shares.

Under the terms of LEAP, the participants may earn matching shares over a five-year performance period, based on the Group's relative total share owner return as compared with 14 other major listed companies in our industry.

Acquisitions and start-ups

In addition to the completion of the $4.7 billion acquisition of Young & Rubicam Inc., in 2000 the Group increased its equity interests at a combined initial cost of £247 million in advertising and media investment management agencies in Belgium, China, France, Israel, Italy, the Middle East, The Netherlands, Pakistan, Portugal, Puerto Rico, Spain and Taiwan; in information and consultancy in Australia, Denmark, Singapore, Spain and Sweden; in public relations and public affairs in Italy, Poland, Turkey and the US; and in branding and identity, healthcare and specialist communications in Australia, Canada, Denmark, Ireland, Mexico, The Netherlands, Portugal, Spain, Singapore, Switzerland and the US.

Particularly interesting functional acquisitions and investments have been made in augmenting the Group's loyalty marketing capabilities (The Lacek Group), strengthening our creative capabilities (SCPF), in technology (Socket Public Relations, Imagio and Imaginet), in interactive (INTERFAZ 401 and Absolut) and in new areas, for example, inflight media (Spafax).

Treasury activities

Treasury activity is managed centrally, from the parent company's London, New York and Hong Kong offices, and is principally concerned with the monitoring of working capital, managing external and internal funding requirements and the monitoring and management of financial market risks, in particular interest rate and foreign exchange exposures.

The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of Directors and subject to regular review and audit.

The Group's interest rate management policy recognises that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

The Group therefore aims to limit the impact from increases in rates while seeking to ensure that it benefits from rate reductions by regularly reviewing its exposure profile and deciding upon the periods for fixing rates in the light of financial market expectations. Its principal borrowing currencies are US dollars and pounds sterling. Borrowings in these two currencies, including amounts drawn under the working capital facility, represented 93% of the Group's gross indebtedness at 31 December 2000 (at US$1,154 million and £178 million respectively) and 94% of the Group's average gross debt during the course of 2000 (at US$948 million and £194 million). 81% of the year-end US$ debt is at fixed rates averaging 5.37% for an average period of 42 months. The sterling debt is all at floating rates. Other than fixed rate debt, the Group's other fixed rates are achieved through interest rate swaps with the Group's bankers.

The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2000 the Group had one forward rate agreement in place capping short-term US$ interest rates at an average rate of 5.65% on $25 million of borrowings.

These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowing and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis. An analysis of the debt and fixed rate maturities is shown in note 8.

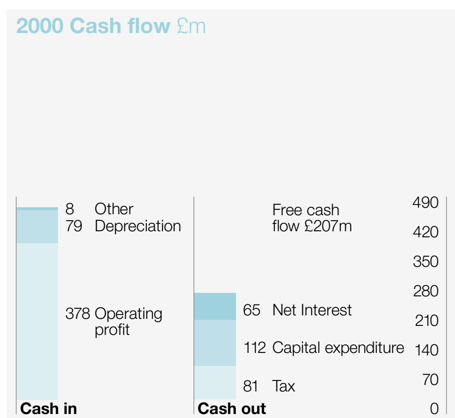
The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained

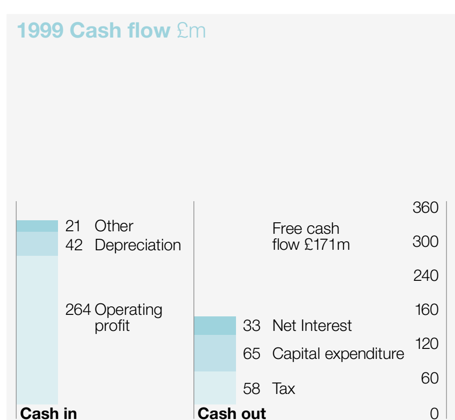
in excess of average gross borrowing levels and debt maturities are closely monitored.

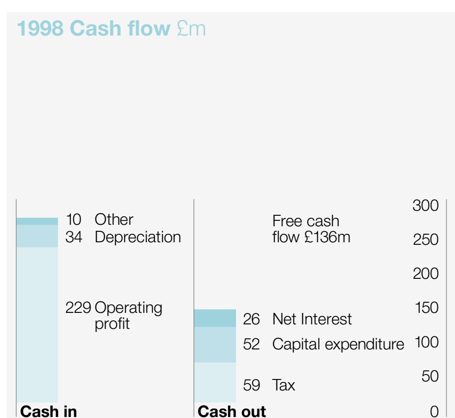
Targets for average net debt are set on an annual basis, and to assist in meeting this, working capital targets are set for all the Group's major operations. Over the last three years, improvements in working capital have made a significant contribution to Group liquidity.

The Group's significant overseas operations give rise to an exposure to changes in foreign exchange rates. The Group seeks to mitigate the effect of these structural currency exposures by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars, as this is the predominant currency of revenues.

Significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. There were no such material contracts in place at 31 December 2000. No speculative foreign exchange trading is undertaken.







Cash flow

As at 31 December 2000, the Group had net debt of £25 million compared with net cash of £92 million at 31 December 1999, following cash expenditure of £247 million on acquisitions, £94 million on share repurchases and the inclusion of long-term debt of £195 million from Young & Rubicam Inc.

Net debt averaged £423 million in 2000, up £217 million against £206 million in 1999. The average debt figures for 2000 include the impact of the Young & Rubicam Inc. long-term convertible bond of £195 million for the final quarter. These net debt figures compare with a current equity market capitalisation of approximately £9.0 billion giving a total enterprise value of approximately £9.4 billion.

Cash flow continued to improve as a result of improved profitability and management of working capital. In 2000, operating profit was £378 million, capital expenditure £112 million, depreciation and amortisation of £79 million, tax paid £81 million, interest and similar charges paid £57 million and other net cash inflows of £84 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £291 million. This free cash flow was more than absorbed by acquisition payments and investments of £247 million, share repurchases and cancellations of £94 million and dividends of £26 million.

Your Board continues to examine ways of deploying its substantial cash flow of over £500 million per annum to enhance share owner value. As necessary capital expenditure normally approximates to 1-1.5 times the depreciation charge, the Company has concentrated on examining possible acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

As noted earlier, your Board has decided to increase the final dividend by 21% to 2.55p per share, taking the full year dividend to 3.75p per share which is over seven times covered. In addition, as current opportunities for cash acquisitions at sensible prices are limited particularly in the US, the Company will continue to commit £150-200 million for share buy-backs in the open market, when market conditions are appropriate. Such annual rolling share repurchases would represent approximately 1-2% of the Company's share capital which seems to have a more significant impact in improving share owner value. If sufficient small to medium sized cash acquisition opportunities are available and there are attractive opportunities for share repurchases, your Board is prepared to increase net debt further to the range of £400-450 million in comparison with the historical target range of £200-250 million. This level of debt would still represent only 4-5% of the Company's market value.

In the first three months of 2001, the period for which information is available prior to printing, constant currency net debt averaged £470 million versus £230 million for the same period last year (2000: £239 million at 2001 exchange rates). This includes the £653 million spent on capital expenditure, acquisitions, share purchases and dividends in the previous 12 months. The average debt figures

for 2001 include the impact of the Young & Rubicam Inc. long-term convertible bond of £195 million. Free cash flow over the same period was £417 million.

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 2000 this resulted in a decrease of £133 million (1999: decrease of £31 million) in the sterling value of share owners' funds due to movements in exchange rates. In 2000, net assets of £3,434 million compared with £355 million (restated) in 1999.

2001 outlook

As usual, our budgets for 2001 have been prepared on a conservative basis largely excluding new business particularly in advertising and media investment management. They predict like-for-like revenue increases of over 7% in comparison to 2000 pro forma numbers, with advertising and media investment management revenue growth of 3% and marketing services growth of over 10%. For the first time in five years it appears that our conservative approach to budgeting may prove correct – unlike previous years when actual revenue growth exceeded budgeted revenue growth by significant amounts.

In the first three months of 2001, combined WPP and Y&R constant currency revenues were up over 9% and on a like-for-like basis, excluding acquisitions and currency fluctations, revenues rose 6%.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 2000 of further improving margins by another 1 margin point to 15.0% in 2001 or a further 0.5 of a margin point in 2002.

Your Board does not believe that there is any functional, geographic, account concentration or structural reason that should prevent the Group achieving operating margins of 15.5% by 2002. After all, the two best listed performers in the industry are at 16-18% and that is where we would want to be.

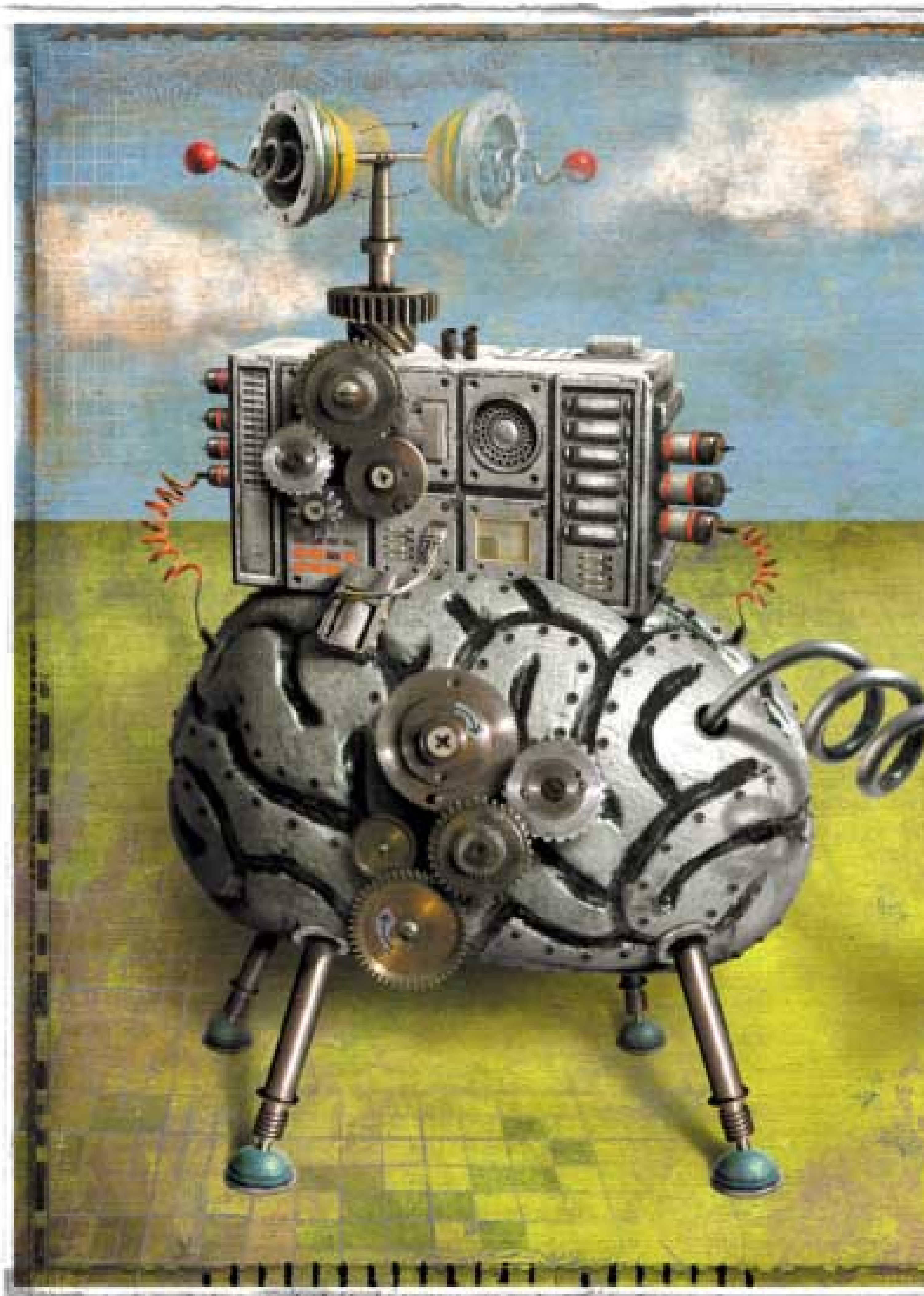
Neither is there any reason why operating margins could not be improved beyond this level by continued focus on revenue growth and careful husbandry of costs. As a result of this confidence, your Board is setting a new operating margin plan, its sixth since 1991, to achieve further growth in operating margins beyond 2002. The objective will be to achieve 20% margins over a period of time.

2001 has been ushered in with a multitude of gloomy prognostications. Some may prove to be justified. But early indications are that the worldwide growth of advertising expenditure will be around 5-6%, with marketing services growing at 6-8% – neither significantly behind 2000.

As long as financial markets remain stable and governments do not stimulate inflation, the worldwide economic environment should be good for growth in the communications services sector as a whole. The global dominance of the American economy; over-capacity in production; the shortage of human capital; the growing impact of new technologies; and the critical importance of internal communications: these are all encouraging factors for our industry. Between them, they have already stimulated growth in the ratio of advertising and marketing services as a proportion of gross national product to new highs. As long, again, as inflationary pressures are not allowed to build, these trends should continue into 2002.

We believe that 2001, WPP's sixteenth year, should be another good one.

Paul Richardson
Group finance director



What we think

The Clipboard and the Copywriter

– and why the uncalculable can be of incalculable value

Many years ago, when cost accounting and efficiency experts were enjoying disproportionate popularity, a man with a clipboard interviewed an advertising agency copywriter.

"Tell me," said the clipboard, pencil poised, "How long does it take to write a thirty-second commercial?"

The copywriter, a seasoned survivor of difficult client meetings, didn't hesitate.

"Two hours and twenty-three minutes," he replied.

The expert nodded, made a note and moved on. He later counted up the number of commercials written by the agency in the course of a year, multiplied the figure by two hours and twenty-three minutes, divided the total by the number of copywriters on the payroll: and concluded in his written report that 48 per cent of them were surplus to requirements.

He may well, of course, have been right – but if so, through chance rather than calculation.

The book that you now hold in your hand, the WPP Group annual report and accounts for the year 2000, contains approximately 7,500 numbers. They attempt to do far more than comply with the company's legal and fiduciary obligations. They strive to convey, with forensic accuracy, the anatomy of the business that its shareholders own; its scope; its competitive performance; its 80-plus component parts; and all this broken down by region and discipline.

It is absolutely no criticism of these figures, nor of those who painstakingly compiled and audited them, to say that, while they accurately quantify the bone-structure of the company, they fail almost completely to evoke its essential character.

Of course we need numbers. Without numbers, incoherence reigns, progress goes uncharted, comparisons become impossible and a company's value is literally incalculable. The danger of numbers is not that they exist but that we become mesmerised by them;

that we come to believe that the importance of things is directly related to their susceptibility to measurement.

In his book *The Tyranny of Numbers*, David Boyle quotes the economist Robert Chambers:

"Quantification brings credibility. But figures and tables can deceive, and numbers construct their own realities. What can be measured and manipulated statistically is then not only seen as real; it comes to be seen as the only or the whole reality." And Chambers summed it all up like this:

"Economists have come to feel
What can't be measured isn't real.
The truth is always an amount –
Count numbers; only numbers count."

Coming to feel that only numbers count is seductive. Numbers seem so safe and scientific. Numbers protect us from making subjective judgments that may be open to challenge. Numbers are like security blankets. But in our heart of hearts, we already know that not everything that matters can be quantified: so we look for ways to measure the immeasurable. In certain competitive sports, judges ascribe a score to something called artistic excellence. You might as well mark a Monet out of ten.

We look, in other words – however uneasily – for ways to quantify quality. Today there are numbers being attached to ethical behaviour and corporate citizenship. It's probably better than ignoring them altogether, but the numbers are not true numbers, like the number of metres in a kilometre; they are metaphors disguised as measurement.

In our lives as citizens and consumers, we are far less reluctant to make judgments. When we choose a car, we may calculate the amount of baggage space we need, the future cost of fuel, our projected annual mileage, our disposable income; but crucially, and often critically, we also respond to style, design, personality and how they contribute to our own self-image: immeasurable factors, every one of them. Perhaps the most important decision we ever make is who we marry; but only if we prudently elect to marry for money does any element of quantification enter into our decision-making process.

The way we choose brands baffles many commentators. The whole of Naomi Klein's bestselling book *No Logo* is predicated on the assumption that brands are imposed on people by the brand owners. The first paragraph of her first chapter reads: "The astronomical growth in the wealth and cultural influence of multinational corporations over the last 15 years can arguably be traced back to

a single, seemingly innocuous idea developed by management theorists in the mid-1980s: that successful corporations must primarily produce brands, as opposed to products." (That "seemingly innocuous" is a nice touch.)

But you can't, of course, produce a successful brand without producing a good product first. And a successful brand, of course, exists because people want it to exist. People differentiate between objects, people, animals instinctively and voluntarily – and rarely on a totally rational basis. People invented brand values in their own heads centuries before the first management theorist dared to try and classify them. Entities that can't be said to market themselves in any conventional sense are perceived by their supporters and detractors to have clear brand characteristics: newspapers, political parties, football teams, schools and universities.

The human brain performs an astonishing act of computing when it does something as apparently simple as choosing a brand of petfood. It takes into account the quantifiable: price, availability, pack size, ingredient list; and the totally immeasurable: style, character, familiarity and a wild projection of the animal's personality. When making brand choices, the human brain has no trouble at all in reconciling the measurable and the immeasurable, the rational and the irrational, quantity and quality. It understands that even price is not a simple matter of low=good, high=bad. To the despair of rationalists, a high price may be seen as evidence of greater quality and therefore greater worth.

(When that very same brain is invited to explain to a researcher the reason for its choice, it should come as no surprise that the brain will favour the rational over the irrational, the quantifiable over the emotional. As we've noted before, numbers, with their beguiling precision, provide a much more respectable justification for behaviour than woolly old subjective affection.)

It may be doing her an injustice, but there seems to be a distinct note of disappointment in Naomi Klein's voice when she recounts the events of Marlboro Friday and its aftermath. According to Klein, the decision of Philip Morris to cut the price of its brand by 20% sent the pundits nuts – "announcing in frenzied unison that not only was Marlboro dead, all brand names were dead." Surely the day of the brand – of all brands – was over? Surely "the whole concept of branding had lost its currency"? "Study after study showed that baby boomers, blind to the alluring images of advertising and deaf to the empty promises of celebrity spokesperson, were breaking their lifelong brand loyalties and choosing to feed their families with private-label brands from the supermarket." After all, she reminds us, "Marlboro had always sold itself on the strength of its iconic image marketing, not on anything so prosaic as its price."

In fact, as it happened, not all the pundits were in unison. The saner ones knew perfectly well what consumers have always known: that value and price are not synonymous; that value is an individual and subjective equation, of which price is only part; and if price is perceived to outweigh desirability, then any sense of value goes into steep decline.

Even in times of recession, when the concept of value is most likely to tilt in favour of the rational, it is hard to find examples, in any developed market, where the brand leader by volume is also the cheapest.

Marlboro quite simply modified its recipe of appeals; and today prospers.

So we are faced with a bit of a conundrum. In our private lives as real people, choosing things and getting married and deciding which vacation to take, we confidently embrace both the functional and the emotional; that which we can measure and that which we can't.

But when we come to business – to the business of making money (quantifiable), gaining brand share (quantifiable), building margins (quantifiable), maximising shareholder value (quantifiable) – we seem to lose our nerve a bit.

As long ago as 1965, David Ogilvy wrote: "The majority of businessmen are incapable of original thought because they are unable to escape from the tyranny of reason." Yet these same people, in their personal lives, shuck off the tyranny of reason on a daily basis.

In other words, it seems that those who buy brands have a more instinctive sense of worth and value than those who provide them: even when they're the same people.

The reason, of course, is the inevitable business need to argue a case, to gain support, to attract investment from a finite source. We reach, because we have to, for numbers. And we really do have to. Imagine a business plan which read in full: "When I look at this design, my heart fills with wonder and my soul soars. Please grant me $2 billion to build a prototype."

For WPP, for its companies and its competitors, numbers are just as necessary: yet their product – that which clients buy – is more often than not unquantifiable.

A thirty-second commercial may take two hours and twenty-three minutes to write; or three weeks; or half-an-hour. But there will be no correlation between its time of incubation and its value to client.

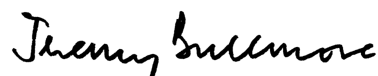
Nor, indeed, is it possible to put a tape measure on that value to client: either before its exposure or – with any precise certainty – even afterwards.

While it is true that some disciplines find it easier than others to put a reassuring figure on return on investment – direct marketing, for example, may find it easier than public relations – it is in the nature of marketing communications that they will, infuriatingly, remain activities requiring a departure from pure rationality to invent and the application of judgment and subjective instinct to approve and support.

The reason is simple. In the recipe of appeals that any brand offers, the rational ingredients will by and large come from the core product itself: from its performance, its price, its distribution. They will be invented and selected by a rational process. In contrast, the emotional ingredients will by and large come from its communications: its messages, its look, its design, its voice. And the invention of each of these demands, at least in part, an excursion into irrationality; into inspiration and creativity; into a field of fantasy where numbers have no place. Were it to be otherwise, they would fail in their appointed task to transform that core product into an object of even greater value to its users.

There is probably no other area of business life that makes such personal demands on business people as the purchase and evaluation of a brand's communications. Deprived of both measurement and precedent (if it's been done before it's probably no good), struggling to find words to describe the non-verbal, buffeted by the winds of passionate advocacy and vehement condemnation, only judgment serves.

We may long for the comfort of the clipboard; but we need the copywriter more.



Jeremy Bullmore
Director

The Tyranny of Numbers, David Boyle, HarperCollins, 2000.
No Logo, Naomi Klein, Flamingo, 2000.

Boom and Bust or Groundhog Day?

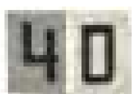
Although 2000 was a boom year for communications services, 2001 has already brought more than its fair share of storm clouds to the US economy in particular and, given that market's importance to the global economy, the worldwide communications industry can hardly escape the consequences.

As a result we expect US advertising expenditure to come under particular pressure with growth of just 3% in nominal terms, flat in real terms. So will it be a case of boom followed by bust or will the ideal scenario of Groundhog Day, repeated good times, reassert itself?

As a genuinely global company with slightly more revenues coming from marketing services as opposed to advertising, well-founded forecasts of continued good growth in the other major markets – Europe, Asia Pacific and Latin America – should benefit WPP and indeed the communications services industry generally.

2001 will not, however, mirror the extraordinary boom of 2000. What we will see is a rather more typical picture of performance with some markets doing better than others. Overall growth though is still on the agenda.

So the immediate future for our industry and company won't be bust following boom but neither can we expect good times of year 2000 levels to continue indefinitely. But who wants to live in Groundhog Day anyway?



Worldwide communications services expenditure 2000*

	Advertising 2000	Market research 2000	Public relations & public affairs 2000	Specialist communications 2000	$bn Total
US	159.3	5.8	2.9	395.5	563.5
UK	17.1	1.6	0.8	58.0	77.5
France	10.9	1.0	0.1	21.8	33.8
Germany	21.0	1.4	0.2	30.7	53.3
Japan	37.0	1.1	0.1	40.8	79.0
Rest of the world	102.2	3.8	0.1	126.3	232.4
Total	**347.5**	**14.7**	**4.2**	**673.1**	**1,039.5**

Source: WPP estimates from various trade sources
*Includes internet; excludes Direct which is included within Specialist Communications

Top 15 US economic sectors ranked by five-year growth

	1994-1999		1999-2004	
US industry	**Growth %***	**Rank**	**Growth %***	**Rank**
Communications	**7.8%**	**1**	**7.3%**	**1**
Services	7.5%	2	6.4%	2
Finance insurance & real estate	6.9%	3	5.6%	3
Wholesale trade	6.0%	4	5.3%	4
State & local government	5.5%	5	4.9%	5
Transportation	5.0%	6	4.6%	6
Retail trade	4.9%	7	4.3%	7
Manufacturing: non-durables	4.8%	8	3.7%	8
Construction	4.2%	9	2.7%	12
Telephone & telegraph	4.2%	10	3.4%	10
Electric, gas & sanitary utility	4.1%	11	3.7%	9
Manufacturing: durables	3.8%	12	3.1%	11
Agriculture, forestry & fishing	3.3%	13	2.7%	13
Mining	2.9%	14	-1.1%	15
Federal government	2.7%	15	1.5%	14
Nominal GDP	5.6%		4.7%	

Sources: Veronis, Suhler & Associates, The Publishing & Media Group, Bureau of Economic Analysis
*Compound annual growth rate

Top 15 US economic sectors ranked by dollar sales*

	1999		2004	
US industry	**$bn**	**Rank**	**$bn**	**Rank**
Services	1,903	1	2,596	1
Finance, insurance & real estate	1,767	2	2,319	2
Manufacturing: durables	819	3	956	5
State & local government	796	4	1,011	3
Retail trade	783	5	965	4
Wholesale trade	627	6	812	6
Manufacturing: non-durables	559	7	671	8
Communications	**525**	**8**	**746**	**7**
Federal government	371	9	400	9
Construction	329	10	376	10
Transportation	289	11	362	11
Electric, gas & sanitary utility	237	12	284	12
Telephone & telegraph	174	13	206	13
Agriculture, forestry & fishing	140	14	160	14
Mining	110	15	104	15
Top 15 total	**9,429**		**11,968**	
Percent of GDP	98.2%		102.6%	

Sources: Veronis, Suhler & Associates, The Publishing & Media Group, Bureau of Economic Analysis
*Dollar amount reflects the final sales of goods and services to consumers and businesses in each of the sectors

Boom and Bust or Groundhog Day

Growth of advertising spending %

Year	Television	Radio	Newspapers	Consumer magazines	Business magazines	Online	Yellow pages	Outdoor	Total
1995	6.9%	7.7%	5.9%	8.4%	7.1%	–	4.2%	10.8%	6.7%
1996	11.9%	8.2%	5.7%	5.0%	10.3%	300.0%	6.0%	7.4%	8.3%
1997	5.0%	10.0%	8.6%	9.0%	11.6%	353.0%	5.3%	7.6%	8.1%
1998	8.5%	11.7%	6.5%	7.1%	3.0%	111.9%	5.0%	9.0%	8.0%
1999	7.3%	12.3%	5.8%	9.0%	7.6%	140.6%	5.6%	9.5%	9.1%
2000	9.3%	12.2%	7.4%	8.0%	6.3%	67.1%	5.9%	10.4%	10.1%
2001	4.4%	9.3%	7.0%	7.5%	6.9%	45.3%	5.2%	10.2%	8.1%
2002	7.3%	10.1%	6.8%	7.5%	6.5%	34.8%	5.0%	9.8%	8.9%
2003	5.0%	7.6%	6.1%	6.9%	6.2%	29.1%	4.8%	9.0%	7.6%
2004	8.3%	8.1%	5.1%	7.4%	5.9%	25.1%	4.6%	8.7%	8.3%
Compound annual growth									
1994 – 1999	7.9%	10.0%	6.5%	7.7%	7.9%	–	5.2%	8.9%	8.0%
1999 – 2004	6.8%	9.5%	6.5%	7.5%	6.4%	39.5%	5.1%	9.6%	8.6%

Sources: Veronis, Suhler & Associates, The Publishing & Media Group, Universal McCann, Paul Kagan Associates, Competitive Media Reporting, AdScope, Agricom, PERQ, Outdoor Advertising Association of America, Internet Advertising Bureau

The outlook for communications services

In 2000 worldwide expenditure on communications services topped $1 trillion, buoyed by the quadrennial US presidential elections, the Olympic Games and the growth of the new economy. As usual, advertising grew a little more slowly at 6-7% (according to our estimates), whilst marketing services grew somewhat faster at 8-9% (again, according to our estimates), reflecting the trend we have seen since WPP was founded 16 years ago. Geographically the US market was very strong, climbing around 12%, influenced by the desire of the incumbent President to go to the country with a strong economic background. The UK also grew strongly at around 10%, with Continental Europe slightly less vibrant, and Asia Pacific and Latin America recovering fully from the 1997 and 1998 recessions to resume the strong growth patterns that again we have seen since WPP was founded.

2001 will be less vibrant. The US economic deceleration which started in the fourth quarter of 2000 will ripple around the world into Europe, Asia Pacific and Latin America. As a result, communications services spending as a whole will probably grow 6-7%, with advertising up 5-6% and marketing services 6-8%. In the US advertising expenditure will be under particular pressure and may grow by 3% in nominal terms, flat in real terms. Marketing services should perform better, showing real growth. Outside the US, the UK should be slightly stronger, Continental Europe stronger still, with Asia Pacific and Latin America even more buoyant.

Commentators vary in their estimates of the severity and length of the recession or deceleration, whether it will be V-shaped, U-shaped or Japanese L-shaped. As we are facing not only a contraction in inventory levels, but also significant overcapacity, oil and natural gas price increases and continued weakness in Japan, the world's second largest economy, it is probable that the recession will last longer than most think. Continued reductions in interest rates and tax cuts will help, but the latter takes longer to affect economic activity. Perhaps the positive impact of these measures will start to spread around the world from the US in 2002.

Against this background, how did WPP do? 2000 was a stellar year, with organic revenue growth of 15%. Using the definition of organic growth that our competitors employ, our growth rate would have been 19%. Our market share grew in all geographic markets as a result. Both advertising and marketing services grew strongly, probably equally so.

Historically, one of the justifiable criticisms of WPP by investment analysts has been that organic revenue growth has been weaker than that of some of our competitors. This certainly was not the case in 2000.

Long-term growth trends in marketing services

Growth in non-media communications

We founded WPP on two basic premises, the first being that marketing services would grow faster than advertising. This trend has held true for the past 16 years and if anything has accelerated recently. Why? Well television, particularly network television, has become relatively more expensive as prices have risen faster than inflation and audiences have fallen. Moreover, clients have been trying to integrate and co-ordinate their marketing communications to stimulate top-line growth.

On the supply side, media has fragmented and become more measurable. Cable, with its lower cost-per-thousand, targeted magazines, radio and posters all offer interesting alternatives. Finally, new technologies offer one-to-one forms of communication with more measurable results. As a result, television's relative position will weaken, despite its ability to deliver the largest possible audiences at the cheapest cost-per-thousand. Clients will become more interested in the lowest effective, rather than purely cheapest, cost-per-thousand.

WPP remains unique amongst its competitive set in that it began in the below-the-line sector. Marketing services functions account for almost 55% of our activities and we are no longer appropriately described as an advertising agency. In recent years others have sought to build their below-the-line activities as clients increasingly shift their expenditure to direct, interactive or public relations.

We believe our history leaves us uniquely placed to respond to this challenge and to moving the proportion represented by marketing services to two-thirds of our business within the next 5-10 years.

Growth outside the US

The other premise was that non-US markets would grow faster than the US. Whilst this was true for the first 13 years or so, it has not been the case since 1997 when recession hit Asia Pacific and then Latin America. However, these markets have since recovered and, given demographic shifts, will probably resume their previous growth path. After all, currently one-third of the world's population is in China and India and by 2014 two-thirds of the world's population will live in Asia Pacific. If Japan and South Korea were prepared to deal with their structural economic problems and non-performing loans, the growth rate would strengthen. It is very difficult for the world economy to continue to grow if the second-largest market has been stagnant for 10 years.

The so-called emerging markets of Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe now account for almost 20% of WPP's revenues. Our objective is that this should rise to one-third within 5-10 years, reflecting the growth opportunity.

Americanisation, not globalisation

Ever since Ted Levitt's article in the *Harvard Business Review* in the early 1980s, it seems that we have been witnessing the globalisation of the world's economy. Levitt believed that we would increasingly market goods and services in the same way, everywhere. Essentially a demand side phenomenon. However, the consumer may be more interesting for his or her differences rather than similarities and what may have been taking place is really a supply side change, more aptly described as Americanisation. Not in the cultural sense that upsets the French, for example, and drives them to ban Americanisms from their language, and which has probably stimulated NGOs and environmentalists to greater levels of protest. It's the simple fact that if you are running a major multinational company or wish to grow your business multinationally, you have to dominate the US market in order to build a global franchise. This is not just an economic phenomenon but a political one, too. With the collapse of communism and extreme socialism, America has become the world's policeman. Currently, America has complete political and financial hegemony.

This increasing influence on the part of the American market does not necessarily contradict modern management theories of empowerment, decentralisation, delayering or devolution of power from the centre. It may not be politically correct to talk about control from the centre but there are tremendous benefits from so-called economies of knowledge or learning, where increased co-ordination ensures that continuous re-invention does not take place in every country or silo. Clearly, recent improvements in technology accelerate this process.

In our own industry approximately 40% of worldwide advertising expenditure originates in the US. However, one can also say that almost two-thirds of worldwide spending is influenced, or co-ordinated or controlled from America, and, moreover, from a relatively narrow geographic area, the north-east corridor of New York, Chicago, Detroit and Boston. Obviously there are large corporations based in Portland, Seattle, Los Angeles, San Francisco, Houston, Dallas, Charlotte, Atlanta and Washington, but the bulk are based in the north-east corner. In WPP's case, 29 of our top 40 clients are based in the US and the majority of these in the north-east. Such concentration is not confined to our own industry. The same is true in many professional services sectors such as consulting or investment banking.

Who would have thought 10 or 15 years ago we would have witnessed the demise of such strong European brand names in the investment banking industry as Warburg, Schroders, Morgan Grenfell, Flemings or Barings? Why? Principally because they failed to realise the importance of building a strong American franchise as a platform for global expansion. The investment banking industry is now dominated by American names as Morgan Stanley, Merrill Lynch, Goldman Sachs and Salomon Smith Barney.

IPO lead underwriters 2000

	Issues	Proceeds $m
1 Goldman Sachs & Co	56	24,450
2 Morgan Stanley Dean Witter	39	5,279
3 Credit Suisse First Boston	56	2,905
4 Merrill Lynch & Co	34	8,897
5 Salomon Smith Barney	23	3,607
6 Lehman Brothers	27	2,986
7 Donaldson Lufkin & Jenrette	20	2,643
8 Fleetboston Robertson Stephens	29	1,974
9 Deutsche Banc Alex Brown	21	1,967
10 Chase H&Q	27	1,509
11 J P Morgan & Co	7	859
12 Bear Stearns & Co Inc	9	803
13 UBS Warburg LLC	7	719
14 CIBC Oppenheimer	7	601
15 Ryan Beck & Co	5	522
16 Banc of America Securities LLC	6	491
17 Warburg Dillon Read LLC	5	406
18 SG Cowen	6	402
19 Bozano, Simonsen Securities Inc	1	337
20 U S Bancorp Piper Jaffray Inc	5	299
21 Sandler O'Neill & Partners LP	2	208
22 Prudential Securities Incorporated	2	196
23 Thomas Weisel Partners LLC	3	190
24 ABN AMRO Inc	1	155
25 Adams Harkness & Hill Inc	2	150

Source: Business Wire

The billion dollar brands in 2000

Rank 2000	1999	Brand	Country	Brand value 2000 ($bn)	Brand value 1999 ($bn)	Change %
1	(1)	Coca-Cola	US	72.5	83.8	-13
2	(2)	Microsoft	US	70.2	56.7	24
3	(3)	IBM	US	53.2	43.8	21
4	(7)	Intel	US	39.0	30.0	30
5	(11)	Nokia	Finland	38.5	20.7	86
6	(4)	General Electric	US	38.1	33.5	14
7	(5)	Ford	US	36.4	33.2	10
8	(6)	Disney	US	33.6	32.8	4
9	(8)	McDonald's	US	27.9	26.2	6
10	(9)	AT&T	US	25.5	24.2	6
11	(10)	Marlboro	US	22.1	21.0	5
12	(12)	Mercedes	Germany	21.1	17.8	19
13	(14)	Hewlett-Packard	US	20.6	17.1	20
14	(-)	Cisco Systems	US	20.0	*	*
15	(20)	Toyota	Japan	18.9	12.3	53
16	(25)	Citibank	US	18.9	**	**
17	(15)	Gillette	US	17.4	15.9	9
18	(18)	Sony	Japan	16.4	14.2	15
19	(19)	American Express	US	16.1	12.6	28
20	(24)	Honda	Japan	15.2	11.1	37

*New entry **Not comparable due to change in availability of data
Source: Interbrand/Citibank

Basically the European brands failed to grasp the importance of building strong US-based businesses when increasingly their people want the intellectual challenge of working on global opportunities.

Often this was because they thought that there was too great a risk in taking this strategic direction or because European-based institutional investors discouraged it. In other industries very few European-based companies understand this. Perhaps BP, Vodafone and GlaxoSmithKline, Reuters, (plus WPP!) in Britain realise it. Maybe Bertelsmann, Deutsche Bank, Vivendi Universal, Telefonica, Fiat and DaimlerChrysler in Continental Europe do too.

So why are the Americans so powerful? First, as indicated, the size of the place. Not only size, but relative homogeneity. Europe may have 350 million people but they are much more heterogeneous. Secondly, the size and power of their capital markets. Their considerable size and liquidity results in higher valuations and hence lower average and marginal costs of debt and equity capital.

American institutions also seem a little less absorbed by the short-term and more willing to back long-term strategic decisions. As a result, mergers and acquisitions are easier for American-based companies, a situation that will be enhanced by the change in goodwill accounting that is expected to be effective from mid-year.

Finally, the Americans have leadership in the new economy. Although this is less fashionable than six months ago, the compression in financial valuations should not detract from the importance of the new economy in changing the way we live our commercial and daily lives. The American economy has leadership in both B2C and B2B, perhaps with the exception of wireless technology where the Europeans and Japanese seem to be in front. The business exchanges in automobiles and trucks, oil, food, and retail, offer major opportunities to manufacturers to recapture margin lost to the newly empowered consumer through procurement economies.

As history amply demonstrates, such dominance is often cyclical. Ten or 15 years ago we would have said that the Japanese were invincible, with the Americans having lost their way. Perhaps the real challenge to American hegemony will come from China. Considerable progress has come from the first 50 years of the People's Republic, and goodness knows what the next 50 years will bring. All this underlines the importance of WPP's geographical objectives in Asia Pacific, in particular.

Issues facing our clients

Impact of low population growth

Most chairmen and CEOs promise the Street or the City 10%-plus rates of growth in profits, earnings per share or cash flow. However, given worldwide

Demographic trends: population aged 60 years or older

Country or area	Number (thousands) 1999	Number (thousands) 2050	Percentage of total population 1999	Percentage of total population 2050	Percentage of 80 years or older 1999	Percentage of 80 years or older 2050
World total	593,111	1,969,809	10%	22%	11%	19%
More developed regions	228,977	375,516	19%	33%	16%	27%
Less developed regions	364,133	1,594,293	8%	21%	9%	17%
Least developed countries	30,580	180,983	5%	12%	7%	10%

Source: United Nations Population Division

population growth of 1.2% per annum, this is impossible to do without taking share from competitors in existing markets or entering new ones. This may also explain why there is increasing emphasis on increasing the return on existing assets and on capital.

Improved communications and trade

Improved travel and communications and the new technologies have stimulated geographical expansion. However, the biggest single impetus has been the growth of free trade, not only in the Americas but in Europe and Asia Pacific too. It will be very damaging if the recession in America and recent trade disputes, such as those over beef and bananas, result in the development of inward-facing policies leading to the growth of three protectionist trade blocs – the Americas, Europe and Asia Pacific.

Stable growth and low inflation

The past 10 years have seen unprecedented growth and stability, both economic and political. At the same time we have seen very low levels of inflation, which have cruelly exposed any manufacturing inefficiencies and prevented price increases being passed on to the consumer. There was nothing like a little inflation to enable price increases to be passed on to the consumer. Independent central banks and the web put paid to that.

Technology transfer

It is also increasingly difficult to maintain a technological or tangible differentiation even in what appear to be technologically sophisticated categories such as automobiles and trucks, computers or telecommunications. Increasingly differentiation is being based on psychological, emotional or life style differences. Manufacturing companies are increasingly differentiating themselves by service capabilities.

And this is where we come in. Our business is about differentiation, both tangible and intangible. As product life cycles shorten, and brand cycles lengthen, this will become increasingly important. For example, in the automobile industry it used to take five years to introduce a new model. Today it might take just 18 months.

Growing retail power

Given globalisation, diminished pricing power and differentiation and the way service is becoming more important as a discriminator, control of distribution is also increasingly more significant. The growth of Wal-Mart in Europe and Asia Pacific causes alarm not only amongst competitive retailers but manufacturers too. The latter are, therefore, becoming more and more interested in category management, where they can try to establish deeper relationships with the biggest retailers.

Global retailing is certainly not about appealing to a global consumer *à la* Levitt, since national and regional shopping habits are so different. The key element is the growth and development of relationships between the largest manufacturers and retailers as they expand their supply and distribution globally. WPP has one of the finest capabilities in this area, through our Boston-based company, Management Ventures Inc., and our retail community – The Store – which links online more than 500 retail experts in all disciplines worldwide.

We also have Glendinning Management Consultants, our sales and marketing management consultancy. We are told that we have more retail analysts than most investment banks.

Retailers have reinforced this growing control of distribution through the development of own label or store brands and as a result manufacturers have had to innovate more aggressively and reduce price differentials, particularly as retailers have improved the quality of their own products.

Control of distribution will therefore become more important, particularly as new technologies have increased the opportunities to develop one-to-one relationships with the consumer. Hence the attempts by automobile manufacturers to move into dealer ownership, although this grab for real estate ownership is difficult to justify when 'virtual' dealerships and relationships are being built over the web. There is also evidence of packaged goods manufacturers developing direct relationships with the consumer over the web, through direct distribution.

This is encouraging since historically retailers have been more aggressive with technologies, perhaps because they are closer to the consumer. Manufacturers tend to believe their customers are wholesalers or retailers. Retailers are closer to consumers on a day-to-day basis.

New competitors

No categories are safe from competition. Trustworthy brands invade new categories. Our own industry has in the past faced competition from talent agencies and more recently from the consulting industry, which, having exhausted the supply side opportunities, is now examining how it can develop demand side capabilities. The new technologies have also helped the consultants, as greater emphasis is being placed on quantitative rather than qualitative skills.

Geographical expansion

Given this increasingly difficult competitive background it is easy to see why geographical expansion has become so much more important. However, it still has a long, long way to go. The typical American-based multinational is still about 70% concentrated in the US. Coca-Cola, with about 60% of its business outside America, is still an exception rather than the rule. Pepsi-Cola, with 64% of its business in the US, is still the norm.

Clearly our geographical objectives will be reinforced by what is likely to happen. Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe will become more important as a result. If the world economy is to grow at 2-3% per annum, the US and Western Europe will grow at 1-2% and Asia Pacific and Latin America at 4-5%.

Three factors that will directly affect the nature of our relationship with our clients

Our business is great fun. Like management consulting and investment banking it offers bright young people the opportunity to see a broad range of industries and geographies at close hand. As we work with our clients it is becoming more obvious that they are increasingly wrestling with three key challenges – overcapacity, new channels of distribution and internal communications.

These are challenges that face not only our commercial clients. They also confront our governmental, social and educational clients and offer our companies increased opportunity too.

Overcapacity, differentiation and the shortage of human capital

Most industries face overcapacity. Indeed this is one of the major reasons for the rapid deceleration in US growth in the past few months. Take the automobile and truck industry, for example. Manufacturers can produce approximately 75 million vehicles worldwide. Consumers can consume 55 million. Hence the significant plant closures and consolidation that has been taking place – Ford with Jaguar, Volvo, Land Rover and Aston Martin; GM with Fiat and Daewoo; Daimler with Chrysler and Mitsubishi; Renault with Nissan and so on. This will continue. Most observers predict there will be only five or six manufacturers left standing in a few years' time. Clearly in this climate,

Global e-advertising and direct e-marketing summary $m

	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Internet advertising									
US	301	843	1,800	3,982	6,600	11,100	17,600	23,700	28,300
% growth	447%	180%	114%	121%	66%	68%	59%	35%	19%
Europe	6	40	84	215	658	1,341	2,000	4,000	5,500
% growth	na	533%	111%	155%	206%	104%	49%	100%	38%
Asia Pacific	0	0	90	166	347	691	1,236	2,070	3,321
% growth	na	na	na	84%	109%	99%	79%	67%	60%
Latin America	0	0	0	51	121	260	517	949	1,646
% growth	na	na	na	na	137%	115%	99%	84%	73%
World	**307**	**883**	**1,974**	**4,414**	**7,726**	**13,392**	**21,353**	**30,719**	**38,767**
% growth	**na**	**187%**	**124%**	**124%**	**75%**	**73%**	**59%**	**44%**	**26%**
Direct e-marketing									
US	0	0	17	97	289	751	1,322	1,994	2,800
% growth	na	na	na	na	198%	160%	76%	51%	40%
Europe	0	0	0	10	30	90	150	340	540
% growth	na	na	na	na	200%	200%	67%	127%	59%
Asia Pacific	0	0	0	0	0	0	62	86	175
% growth	na	na	na	na	na	na	na	40%	102%
Latin America	0	0	0	0	0	0	0	9	40
% growth	na	na	na	na	na	na	na	na	na
World	**0**	**0**	**17**	**107**	**319**	**841**	**1,534**	**2,429**	**3,555**
% growth	**na**	**na**	**na**	**na**	**198%**	**164%**	**82%**	**58%**	**46%**
Total world e-advertising and e-direct marketing	**307**	**883**	**1,991**	**4,521**	**8,045**	**14,233**	**22,887**	**33,148**	**42,322**
% growth		**187%**	**126%**	**127%**	**78%**	**77%**	**61%**	**45%**	**28%**

Source: Morgan Stanley Dean Witter Research

differentiation, both tangible and intangible, becomes critical.

Technological, psychological and emotional or life-style differences become more important, which is where we come in with our skills in advertising, media investment management, information and consultancy, public relations and public affairs, branding and identity, healthcare and specialist communications. In addition, the corporate brand and the role of the chairman and CEO as brand guardian will also become increasingly important.

The nineteenth and twentieth centuries were about undercapacity and the need to satisfy consumer demands. The shortage was in productive capital. The twenty-first century will be about the shortage of *human* capital. Given demographic changes such as the decline in the birth and marriage rates, the increase in divorce rates, the growth of single-parent families and, most importantly, the rise in life expectancy, there will be a growing shortage of new entrants to the labour market. Companies will compete even more keenly for bright young things from universities and colleges.

Furthermore, differentiation between companies will be achieved by how well their people implement their strategies and structural change. Increasingly, therefore, the recruitment,

Online advertising spending by quarter $m

Year	1st quarter	2nd quarter	3rd quarter	4th quarter
2000	1,953	2,100	1,986	na
1999	693	934	1,217	1,700
1998	351	423	491	656
1997	129	214	227	336
1996	30	52	76	110

Source: IAB/PricewaterhouseCoopers

Internet user driving forces

1998–2001	2002–2005
E-mail proliferation	Business-to-business e-commerce
Free web browse	Broadband connections
Content explosion	Web cellular phones
Low-cost PCs	m-commerce (e-commerce for mobile devices)
Intranets	Application service providers (ASPs)
Web hosting services	Web appliances
Business-to-consumer e-commerce	Web entertainment appliances
PC purchase rebates from ISPs	Hardware cost bundled in ISP rates
Business-to-business e-commerce	Declining & fixed ISP rates outside US
'Free' IPS rates in international markets	e-commerce driven productivity gains
Web-driven productivity gains	Web interactive TV service

Source: eT Forecasts

development and retention of people will become of greater importance.

The new channels of distribution

Although there has been a collapse in valuations in the new technology and media areas and we are all having to pay for the South-Sea Bubble and Tulip-like excesses of the past few years, there are still three factors at work here. First, the new channels disintermediate your business. Michael Porter might disagree, but these new technologies still threaten traditional ways of doing business.

Take, for example, a situation in our own field. Market research data has traditionally been captured by phone and mail. This approach has been somewhat cumbersome. Questionnaires have to be prepared, distributed, collected and analysed. By the time the considerable data dump has been made on the client, often with too little analysis, the problem being analysed could well have changed. Many CEOs complain of the lack of practicality of such research and about the researchers' preoccupation with technique.

The new technologies offer a rapid reaction alternative through, for example, internet panels. Although these currently may lack statistical sample accuracy, they provide a far more practical means of capturing information. However Michael Porter is right in that, following the pricking of the bubble, these new techniques are being absorbed much more readily into traditional channels of distribution, which either moved too slowly previously or downplayed the importance of these changes.

Secondly, despite recent changes in valuation, these new business models are still evaluated in different ways from traditional models. Whilst burn-rates are now a concern, sales, revenues and market remain dominant over profitability and cash flow.

In addition, clients continue to segregate new technology and media budgets from traditional investments of this nature, and still give greater freedom to the development of these areas. It can be very frustrating to see media budgets slashed whilst expenditure on new technology consulting rises inexorably.

Finally, they still steal the talent. Whilst it is true that many people are returning from the dotcom 'startdowns' to our industry and others, it is also probably true that there has been a permanent shift in the psychology of young people. Whilst previous generations may have believed that loyalty to one company over a working lifetime would be repaid, the down-sizing of the 1990s and the perceived opportunities of the new economy have put paid to that.

Young people do not want to serve apprenticeships in large, bureaucratic corporations. They want responsibility, opportunity and rewards earlier in their careers. For a fleeting moment, they thought they had found this in the new economy.

WPP responded strongly to these challenges. Through wpp.com we made investments directly in new channels. At the same time we encouraged our traditional channels to embrace the new technologies. Ogilvy grew OgilvyInteractive, Thompson grew digital@jwt, Y&R Advertising grew 2.1 and Kantar grew MB Interactive and Lightspeed. Hill and Knowlton acquired Blanc & Otus, Ogilvy Public Relations Worldwide acquired Alexander Ogilvy and Impiric strengthened its interactive capabilities. In addition, we devised new ways of incentivising our key interactive people through equity for fee and side-car cyber funds.

Although stock market enthusiasm for these areas has weakened, we still believe that these new technologies have fundamentally altered the way we work and the way our people think. They will remain critically important as can be seen by the continued and growing involvement of our major 'traditional' clients in these areas. It has truly been the revenge of the traditional brands.

Internal communications

Increasingly the work we do is not aimed solely at external audiences. It is becoming more apparent to chairmen and CEOs that the most important factor is implementation of strategy, rather than, perhaps, the strategy itself. Making sure that the internal audience is aligned with the strategy or organisational structure is increasingly important.

In WPP's case, making sure that 65,000 people are facing in the same direction at the same time is extremely difficult, particularly with the encouragement and development of the operating companies or 'tribes'.

Our most important clients realise this too. Take our three biggest. At Ford Motor Company, chairman Bill Ford Jr. and chief executive Jac Nasser have provided low cost personal computers and intranet access to all employees. Furthermore, Jac Nasser talks to all his people each week by email on issues he thinks important. Niall Fitzgerald and Tony Burgmans regularly use 'Unileverage' seminars to encourage co-operation at Unilever. At IBM, Lou Gerstner consistently e-mails 300,000 IBMers. All understand that people inside organisations can transmit positive messages to customers, suppliers, potential employees, press, analysts, institutions, government, NGOs and others. Getting the internal audiences on side is critical.

At WPP, internal communications is becoming an increasingly important

practice in advertising, market research, public relations, branding and identity and specialist communications and has led to the development of a specialist firm, Banner McBride, operating on both sides of the Atlantic.

Issues facing the communication services industry

In response, our industry faces a number of opportunities, which, unless addressed, will become threats.

The right structure

Our industry is seen as being on the cutting edge of progress, closely in touch with changing cultures and trends. Nothing could be further from the truth. Although some of WPP's first generation businesses are entrepreneurial, with flat and lean organisational structures, most of our institutional businesses, whilst having strong brands and being less fragile, remain geographically driven, silo-like structures. Somewhat surprising, when our clients are looking for economies of scale, knowledge and learning.

However, one strength our institutional businesses do have is an ability to follow their clients and learn from them. Increasingly agency structures will switch from geography first, function second and client third to the reverse – client, function, geography. This will be accompanied by a rigorous review of process, much akin to the practices of organisational and methods experts – yes, Jeremy, numbers will become more important but not paramount.

Some clients, having gone through significant structural change themselves, have initiated change programs in their marketing practices too. A good example is Unilever's Advanced Brand Communications Program, which seeks to improve and simplify the process of developing communications programs and bringing them to market more quickly. Given the fact that it is impossible for agencies to act in isolation, client initiatives like these may be extremely effective.

WPP has developed this type of structural change in 21 test beds around the world, with the objective of developing better work faster. Some challenges, such as filling in time sheets, are relatively mundane but essential in professional service businesses in order to analyse revenue streams and costs effectively.

As WPP's margins reach 15%, to match the very best-performing competition, we are constantly asked whether there is life after 15%. With a target of 15.5% in 2002 and a general, but not time specific, target of 20%, we have indicated that there is. One of the interesting lessons of our experience is that good, well balanced, local agencies generate margins of 20% or so.

Reductions in general levels of margins seem to occur when agencies grow globally, as significant overhead is added in account management, human resources, information technology and financial and administrative activities at country, regional and worldwide levels. Given economies of scale and new technology, you would think the opposite was the case.

Encouragingly, there are examples of such success. BBDO used to post 20% margins. McCann-Erickson, really a mini-IPG, does so currently and Dentsu, although rooted in network television in Japan, also achieves this level. Such levels of margin are probably appropriate for professional service businesses. Certainly management consultants achieve them.

The right size

In a creatively driven business there are probably some diseconomies of scale. Certainly this is the perception amongst clients and employees. The bigger a creative business becomes, the more bureaucratic and unresponsive it can be. Clients worry about their own businesses in this way and seek to change 'culture', which is often an excuse to prevent change.

We all want to run a company with the power and resources of a large one, and the entrepreneurial energy, heart, soul and attitude of a small one. We all want to be customer or client focused and share owner driven. We all want a can-do attitude where nothing is impossible. And new technology is making all this easier. However, although clients want the smaller scale planning and creative skills, they also want economies of scale through co-ordination and consolidation of creative, media planning and media buying. IBM, De Beers, Eastman Kodak, GlaxoSmithKline, Kimberly-Clark, Ford, Mattel, Kraft Foods, American Express, Diageo, Colgate-Palmolive, Motorola and CitiGroup are examples where we have benefited. Bayer and Reckitt Benckiser were neutral. SC Johnson, Pfizer and Verizon were bad for us.

Given this tension you would think there was an opportunity for mid-sized agencies occupying the mid-ground between the big, global agencies and the small, one or two location city agencies. But the inexorable consolidation continues with Saatchi & Saatchi and Deutsch the latest to join the ranks of Hill Holliday, Campbell Mithun Esty, GGT, Mullen, TBWA, Chiat Day, Hal Riney, Scali McCabe Sloves, Ketchum and Ammirati & Puris falling into the hands of the big battalions.

Many of these agencies were run by idiosyncratic and iconoclastic entrepreneurs who railed against the big bureaucracies, but who joined them not only for perfectly respectable financial reasons but because they increasingly needed strong geographical and functional capabilities. For the buyer there remains the problem of whether to consolidate these first generation businesses into their structures or leave them on their own.

When such gaps open up in any market there are interesting opportunities. Agency structures seem to follow the old 80-20 rule. 80% of the sales and profits come from 20% of the offices.

As a result you would think that there might be an opportunity for an agency which focused on the largest cities – such as New York, Detroit, Chicago, Los Angeles, São Paulo, Mexico City, Buenos Aires, London, Paris, Frankfurt, Milan, Madrid, Tokyo, Shanghai, Hong Kong, Mumbai and Sydney. This is certainly the thought behind the development of Red Cell, our agency for 'challenger' brands.

The big five – or is it four?

Our industry has seen the emergence of a bulge-bracket of three large companies. Just like the investment banking industry, automobiles and trucks or pharmaceuticals, four, five or six companies will dominate. Three companies, IPG, Omnicom and WPP generate revenues of over $6 billion.

Two seem to be coming closer together; Dentsu and Bcom3, with combined revenues of $4 billion, although the postponement of the latter's IPO may drive them closer together or encourage a bid. Dentsu will both become even more powerful, through its planned IPO, and gain significant clout through its own network and its joint venture with Young & Rubicam, DY&R.

Two French companies, Havas and Publicis with revenues over $2 billion, remain aggressive consolidators, hoovering up numerous targets, including Snyder Communications and Saatchi & Saatchi. However, weakness in the stock markets and the vicissitudes of French paper, as against American paper, may make this more difficult.

This leaves Cordiant and Grey, both with revenues of $1-2 billion, looking increasingly vulnerable, as do Hakuhodo and Tokyu in Japan. Some may follow the True North course.

Increasingly market power seems to be driving consolidation. Clients seem to be focusing on how they can generate top line growth by co-ordinating their marketing communications, whilst at the same time reducing costs by focusing their resources with one provider. Both these trends were given a further boost by DaimlerChrysler when it placed all its business with Omnicom, rather than True North.

This also seems to be encouraging a new phenomenon, the consolidation of business at holding or parent companies. With Coca-Cola and Verizon at IPG, DaimlerChrysler at Omnicom and Ford and Boots at WPP, there seems to be growing client interest in consolidation at this level. Yet one question remains to be answered – given this increasing size, can these businesses be effectively structured and managed?

The right people

We just have not been recruiting enough bright, young people. The attractions of investment banking and consultancy are well known, attracting almost half of graduating classes at universities and business schools. Although the web checked this and gave us a competitive advantage, since we were seen to be closer to the new technologies, the bursting of the bubble has encouraged graduates to go back to their previous heroes.

Hence, the growing importance of our graduate and post-graduate WPP Fellowship Program. Successful applicants (winning through a 10-1 applicant to success ratio), could, for example, spend one of their three years with J. Walter Thompson in advertising in London; a second year with OgilvyOne in direct or interactive in New York; and a final year with Burson-Marsteller in public relations in Continental Europe. On 'graduating', there would be a permanent assignment to one of our operating companies.

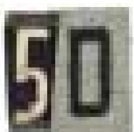
When we started the program, we were very concerned by the probability of competitive response. To date there has been very little. Perhaps that is the problem – very little interest.

Has the new technology bubble really burst?

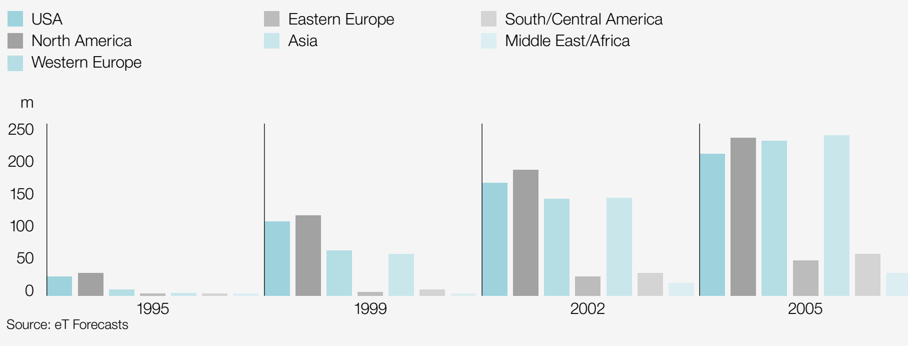
The growth in internet advertising slowed dramatically last year. In 1999, it grew 140% to $4.6 billion in the US and 150% to $5.4 billion globally. In 2000 internet advertising growth was down to 52% ($7 billion) in the US and 65% ($9 billion) globally. Still a very small fraction of the more than $1 trillion spent on communications services.

The slowdown was due not only to the excesses in valuation that occurred in the late nineties and 2000, but also to a failure of creative departments to deal with the creative opportunities on the web. This was especially punishing, given the dependence of the new business models on advertising for their revenues.

However, transactions on the web continued to grow significantly to over $650 billion in 2000. This growth and the growing importance of B2B exchanges (even in our own



Internet users by regions



Source: eT Forecasts

Top 10 web advertisers 1999

Advertiser	Spending $m
Microsoft	36.2
IBM	27.1
General Motors	21.4
Hewlett-Packard	16.2
First USA	14.6
Compaq	13.3
AT&T	13.1
@Home	13.0
Intel	12.4
Amazon.com	12.0
Total	**179.3**

Sources: Veronis, Suhler & Associates, The Publishing & Media Group, CMR Interactive

Top 10 web advertising categories 1999

Category	Spending $m
Computers	663.1
E-commerce	278.4
Financial	191.7
Local services & amusements	133.6
Media and advertising	126.7
Automotive	79.2
Telecommunications	62.2
Public transportation, hotels & resorts	59.3
Business & technology	37.8
Insurance & real estate	33.1
Total	**1,665.1**

Sources: Veronis, Suhler & Associates, The Publishing & Media Group, CMR Interactive

industry) highlights the growing importance that our 'traditional' clients place on this area for expansion. Our work for Ford, American Express or IBM are good examples of this.

The collapse of internet valuations has given our clients the opportunity either to develop further their activities in the new technologies or to catch up to overcome previous cynicism. In the past six months or so we have truly witnessed the revenge of the brands in this area: it is clear that the reaction of the financial markets does not necessarily match what is happening in the real world.

Media monopolies and the increasing cost of television

Media ownership continues to concentrate, and proposed changes in FCC legislation in the US will accelerate the process. This extends to the pipes as well as the content, the latter becoming very sexy lately, post Time Warner and AOL, Pearson and Bertelsmann, and Vivendi and Seagram.

Whilst this raises political issues it also has an important impact on media pricing. News Corporation, Vivendi Universal, Disney, Viacom and AOL Time Warner are in an even stronger position to influence pricing and profitability. In the UK, United merged with Granada, which will almost certainly merge with Carlton, leaving one ITV network company.

The argument is that this one company will be able to compete internationally, although at a combined market capitalisation of $15.3 billion, it is dwarfed by its US competitors, whose capitalisations range from approximately $40 billion to over $200 billion. A suspicion exists that a reduction in the quality of programing is paying for the £1 billion, and rising, cost of digital. Cross media ownership can extend to 60-70% of a regional market segment, whereas in the UK, the two remaining ITV companies control two-thirds of network television sales.

This is not just a transatlantic phenomenon. It extends to Azcarraga and Salinas in Mexico; Cisneros in Venezuela; Marinho in Brazil; with Malone and Hughes extending their influence in South America and Murdoch in Asia Pacific.

In strong economic conditions the pricing impact can be severe. In the last few years when general price inflation has been 2-3%, network prices have been rising 10% in real terms, owing to rising prices and falling audiences. For a leading advertiser such as Procter & Gamble or Unilever, this can cost approximately $300-$400 million in media effectiveness each year.

Small wonder there has been distinct client relief in recent months as the economic slowdown in the US and UK has resulted in reduced demand for network television, and hence falling prices. Interestingly, in the UK client expenditure may have been further reduced as audiences and yields have held up better than expected.

WPP's response? Twofold. First, to build the leading media investment management company in the world by linking two major brands, MindShare and The Media Edge, through a WPP media parent company, probably to be called The MindShare Edge. With separate media planning capabilities and joint buying where appropriate, these companies will offer clients the opportunity to evaluate the scale and distribution of their total communications spending, e.g. how much they should spend and where.

At the same time, The MindShare Edge will explore ways of using Kantar Media Research's information resources to improve the analysis and effectiveness of client expenditure. We have a unique competitive opportunity to link media and research.

Secondly, to build a global brand in television audience measurement. WPP's interests in AGB and IBOPE now work in over 25 markets throughout the world – more than anyone else.

New global services

Advertising was the first discipline to expand globally. Information and consultancy, or its more mundane cousin, market research, was second. Information and consultancy has been growing organically by over 14% per annum over the past few years, with client relationships spreading to as many as 30 or 40 countries for ad-tracking or copy testing. Why?

First, as they expand globally, clients are looking for common languages for easy comparison of audiences. They require economies of knowledge.

Secondly, as competition intensifies, it is increasingly difficult to make intuitive decisions. There has to be quantitative justification for decision-making.

Finally, as costs have been squeezed, internal research departments have been reduced or eliminated, thus increasing the importance of outsourcing to market research agencies. Perhaps the latter was not such an intelligent idea, since a core competence of most consumer companies, particularly packaged goods companies, is consumer insight.

As suggested previously, the market research industry could be disintermediated by new technology. Most CEOs complain that traditional market research techniques are too slow and complicated. By the time the questionnaire has been prepared and the data collected and analysed, the problem has changed. Market researchers are over-absorbed with technique. Internet panels will clearly improve this situation, through WPP's IntelliQuest, with its 30,000 strong panel of CIOs, or Kantar's high speed internet research panel with more than 400,000 respondents. Virtually instant responses can be gleaned on any issue.

Moreover, with the growth of one-to-one marketing, database management, datamining and the growth of digital television, where very accurate viewer data can be generated, the market research and direct marketing industries will start to converge. At WPP, OgilvyOne, ThompsonConnect and Impiric will, in a way, have more and more in common with Kantar. Datamining really represents a fusion of the two industries, enabling clients to develop a deeper understanding of customer relationships and how to stimulate increased longevity within them by altering patterns of products, services and communications.

Another challenge for the market research companies is to move up the value chain into the CEO's office. Because of the frustration described earlier concerning speed of response, CEOs have been sceptical about the value of such services. WPP's BRANDZ™, a 20-market worldwide annual survey of the strength of 8,000 brands amongst 180,000 consumers, and Y&R's BAV (Brand Asset Valuator) are two of a number of attempts to raise awareness amongst CEOs of the importance, role and significance of branding. BRANDZ™ is based on Millward Brown's Brand Dynamics technique, which measures the strength and potential of brands and the factors driving that strength.

All this represents an attempt to find the Holy Grail in advertising – to measure the return on investment on marketing expenditure and help clients allocate their expenditure in the most effective way.

As well as advertising and information and consultancy, branding and identity has become our third global business. As companies have expanded geographically or by merger or acquisition, corporate branding and identity has become a far more important way of differentiating the corporation and galvanising and motivating internal audiences.

At WPP, Enterprise IG and Landor have been expanding aggressively throughout the world and offering a service that analyses brand reputation and designs, and implements corporate programs. The corporate brand will become a more and more intangible differentiator.

In the coming years, we expect media investment management, public relations and public affairs to become increasingly global in nature for similar reasons.

Becoming more strategic

We do three things for clients – strategic thinking, creative execution and co-ordination. Unfortunately, as a result of increasing competitive pressures, clients have become more interested and reliant on the latter two. Creative hip-shooting has become much more important than strategic brand development.

At the same time, management consultants have been turning their attention to the demand side. For example, McKinsey & Co has suggested that packaged goods clients are spending too much on advertising in

mature markets but not enough in developing markets. In contrast Bain & Co suggests that they spend too much on trade promotion and not enough on the brand.

Whichever is right, it represents an incursion into our territory and, given the increasing cost of television advertising, the difficulty of measuring advertising effectiveness, short-term profit pressures and the scale of advertising expenditure, such advice is seductive.

Finally, realising that all business strategy is marketing strategy – starting with the consumer and moving backwards – the consultants have left their quantitative world to enter the touchy-feely areas of marketing and advice on the size and optimisation of communications service budgets.

Our industry has yet to respond. At WPP the nearest we come to a pure strategic marketing consultancy is The Henley Centre, although we are starting to build very strong specialist practices in retailing (Management Ventures, The Store, Glendinning Management Consultants), financial services (pFour), healthcare (CommonHealth), and branding (icon brand navigation).

One of the interesting current opportunities is to develop new technology consulting services with major consultancies. Through OgilvyOne and Impiric we have entered this area in an attempt to harness technology consulting skills, software development and consumer insight.

Currently, clients seem to be willing to accept that they need both technology and consumer insight in the new media space. We will continue to develop an approach based on a mixture of acquisition, start-up and development of existing businesses.

Our remuneration

More than three-quarters of our revenues come from time-based fees, mainly concentrated in information and consultancy, public relations and public affairs, identity and branding and specialist communications. In our advertising business, one-half of our revenues or one-quarter of the total comes from commissions. In the case of advertising this is less than the industry average, where about two-thirds of revenues are based on fees. This probably reflects the nature of our client base.

In any case the drift to fees is no bad thing. Fees make us focus more on revenue analysis and allocation of resources and costs. In addition, they smooth the flows of our income and generally give us minimum levels of revenues. Commissions are much more volatile, depending directly on spending levels and seasonality.

Some clients have reviewed their commission systems and stayed with them. Both Nestlé and Unilever have reviewed their approach and while conducting limited experiments or pilots with other systems, have to date stuck with commissions. Both for fees and commission there is also a tendency for clients to introduce success fees based on sales or market share targets, revenue growth, profitability, agency evaluation scores or even awards.

The movement to performance bonuses, often described as payment for results, is probably an appropriate trend and is likely to accelerate in the new media area where quantification and evaluation of results is much easier. It is also a meaningful way of measuring the impact of communications services on brand building.

Last word from Procter & Gamble and the Harvard Business School

During the last few years we have written about Procter & Gamble's changes in thinking in the areas of new technologies, agency compensation, media investment management and agency conflict management. As still the world's largest advertiser, Procter sets the tone in these areas.

However, like many old economy companies, P&G was sharply affected by the changes taking place in the new economy. The shift of pricing power to the consumer at a time of overall price stability, the pressure on margins as a result, the emergence of new competitors in their traditional categories and the growing power of retail distribution, all conspired to pressurise the company at the same time.

As a result, as with others, there has been a significant impact on its market capitalisation, with a devaluation in its twelfth-largest market, Turkey, resulting in a profit warning, and exceptional costs becoming a regular feature of its income statement for some years to come.

Perhaps the pendulum of control or influence swung too far to the centre, and maybe increased decentralisation (as with Coca-Cola) will restore the company's fortunes. More importantly, its strength in the engine room of the world's economy will probably ensure that this is so. The latest quarterly results seem to indicate this.

Anybody who believes that these trends are confined to the business world should think again. They are equally applicable to all aspects of society, including government and education.

Take the Harvard Business School, for example. In typical B-School style they have written three case studies on the development of their strategy.

The first, on whether they should develop case-writing facilities on the West Coast, in the heart of Stanford territory. Why? To cope with the explosion of technology and entrepreneurialism.

The second, whether they should open a similar centre in Hong Kong, Buenos Aires or Paris. Why? To cope with globalisation.

The third, on distance learning and how new technology might disintermediate an established brand like the Harvard Business School and its physical facility at Soldier's Field. Will 27-year-olds continue to be willing to pay the direct and opportunity costs of two years in Boston, when they can receive an alternative, differently priced, differently resourced product virtually?

Nice to know that everyone has similar problems!

Martin Sorrell
Group chief executive

The numbers in full

Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the Group's principal accounting policies, which have been applied consistently throughout the year and the preceding year (except as disclosed in accounting policy 14), is set out below.

1 Basis of accounting and presentation of financial statements
The financial statements are prepared under the historical cost convention.

2 Basis of consolidation
The consolidated financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired or disposed of during the year are included or excluded from the profit and loss account from the effective date of acquisition or disposal.

3 Goodwill and intangible fixed assets
Intangible fixed assets comprise goodwill and certain acquired separable corporate brand names.

Goodwill represents the excess of the fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition. In accordance with FRS 10, for acquisitions made on or after 1 January 1998, goodwill has been capitalised as an intangible asset. Goodwill arising on acquisitions prior to that date was written off to reserves in accordance with the accounting standard then in force. On disposal or closure of a business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Corporate brand names acquired as part of acquisitions of business are capitalised separately from goodwill as intangible fixed assets if their value can be measured reliably on initial recognition.

The directors have reassessed their opinion that all the goodwill and intangible assets of the Group have an infinite life. For certain acquisitions, where the directors consider it more appropriate, goodwill is now amortised over its useful life up to a 20 year period, from the date of acquisition. The remaining goodwill and intangible assets of the Group are considered to have an infinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and WPP's commitment to develop and enhance their value. The carrying value of these intangible assets will continue to be reviewed annually for impairment and adjusted to the recoverable amount if required.

The financial statements depart from the specific requirement of companies legislation to amortise goodwill over a finite period in order to give a true and fair view. The directors consider this to be necessary for the reasons given above. Because of the infinite life of these intangible assets, it is not possible to quantify its impact.

4 Tangible fixed assets
Tangible fixed assets are shown at cost less accumulated depreciation with the exception of freehold land which is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings – 2% per annum
Leasehold land and buildings – over the term of the lease
Fixtures, fittings and equipment – 10%-33% per annum
Computer equipment – 33% per annum

5 Investments
Except as stated below, fixed asset investments are shown at cost less provision for diminution in value.

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account and the investments are shown in the Group balance sheet as the Group's share of the net assets. The Group's share of the profits less losses and net assets is based on current information produced by the undertakings, adjusted to conform with the accounting policies of the Group.

6 Stocks and work in progress
Work in progress is valued at cost or on a percentage of completion basis. Cost includes outlays incurred on behalf of clients and an appropriate proportion of direct costs and overheads on incomplete assignments. Provision is made for irrecoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

7 Debtors
Debtors are stated net of provisions for bad and doubtful debts.

8 Taxation
Corporate taxes are payable on taxable profits at current rates.

9 Incentive plans

The Group's share based incentive plans are accounted for in accordance with Urgent Issues Task Force ('UITF') Abstract 17 'Employee Share Schemes'. The cost of shares acquired by the Group's ESOP trusts or the fair market value of the shares at the date of the grant, less any consideration to be received from the employee, is charged to the Group's profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment) an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and an appropriate accrual made.

10 Pension costs

The charge to the profit and loss account in respect of defined benefit pension schemes is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated to achieve a substantially level percentage of the current and expected future pensionable payroll. Variations from regular costs are allocated to the profit and loss account over a period approximating to the scheme members' average remaining service lives. For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period.

11 Operating leases

Operating lease rentals are charged to the profit and loss account on a systematic basis. Any premium or discount on the acquisition of a lease is spread over the life of the lease or until the date of the first rent review.

12 Turnover, cost of sales and revenue recognition

Turnover comprises the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned. Cost of sales comprises media payments and production costs. Revenue comprises commission and fees earned in respect of turnover. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Advertising and media investment management

Revenue is typically derived from commissions on media placements and fees for advertising services. Traditionally, the Group's advertising clients were charged a standard commission on their total media and production expenditure. In recent years, however, this frequently has tended to become a matter of individual negotiation. Compensation may therefore consist of various arrangements involving commissions, fees, incentive-based compensation or a combination of the three, as agreed upon with each client.

Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. Incentive-based compensation typically comprises both quantitative and qualitative elements; on the element related to quantitative targets, revenue is recognised when the quantitative targets have been achieved; on the element related to qualitative targets, revenue is recognised when the incentive is received/receivable.

Public relations & public affairs and Branding & identity, healthcare and specialist communications

Revenue is typically derived from retainer fees and services to be performed subject to specific agreement. Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. Revenue is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account revenue and related costs as contract activity progresses.

Information & consultancy

Revenue is recognised on each market research contract in proportion to the level of service performed. Costs, including an appropriate proportion of overheads relating to contracts in progress at the balance sheet date, are carried forward in work in progress. Losses are recognised as soon as they are foreseen.

13 Translation of foreign currencies

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise. The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net investments in these companies are translated at year-end exchange rates. Exchange differences arising from retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

14 Changes in accounting policies

The Group adopted FRS 19 (Deferred Tax) during the year. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The Group also adopted FRS 15 (Tangible Fixed Assets) and FRS 16 (Current Tax) during the year. There has been no material impact on the financial statements as a result of the adoption of these new standards.

Consolidated profit and loss account (UK sterling)

For the year ended 31 December 2000

	Notes	2000 Continuing Operations* £m	2000 Acquisitions (Young & Rubicam only) £m	2000 Total £m	1999 £m	1998 £m
Turnover (gross billings)	1	**12,212.7**	**1,736.7**	**13,949.4**	9,345.9	8,000.1
Cost of sales		**(9,591.4)**	**(1,377.3)**	**(10,968.7)**	(7,173.3)	(6,081.7)
Revenue	1	**2,621.3**	**359.4**	**2,980.7**	2,172.6	1,918.4
Direct costs		**(244.6)**	**–**	**(244.6)**	(317.3)	(285.9)
Gross profit		**2,376.7**	**359.4**	**2,736.1**	1,855.3	1,632.5
Operating costs	2	**(2,046.3)**	**(311.8)**	**(2,358.1)**	(1,591.8)	(1,403.4)
Operating profit		**330.4**	**47.6**	**378.0**	263.5	229.1
Income from associates		**35.4**	**2.6**	**38.0**	27.3	16.1
Profit on ordinary activities before interest and taxation	1	**365.8**	**50.2**	**416.0**	290.8	245.2
Net interest payable and similar charges	4	**(47.8)**	**(2.5)**	**(50.3)**	(35.4)	(32.4)
Profit on ordinary activities before taxation		**318.0**	**47.7**	**365.7**	255.4	212.8
Taxation on profit on ordinary activities	5			**(109.7)**	(76.6)	(67.0)
Profit on ordinary activities after taxation				**256.0**	178.8	145.8
Minority interests				**(11.3)**	(6.0)	(5.5)
Profit attributable to ordinary share owners				**244.7**	172.8	140.3
Ordinary dividends	6			**(37.8)**	(24.0)	(19.6)
Retained profit for the year				**206.9**	148.8	120.7

	Notes	2000	1999	1998
Earnings per share	7			
Basic earnings per ordinary share		**29.3p**	22.9p	19.1p
Diluted earnings per ordinary share		**28.4p**	22.5p	18.8p
Ordinary dividend per share	6			
Interim dividend		**1.2p**	1.0p	0.84p
Final dividend		**2.55p**	2.1p	1.72p
Earnings per ADR				
Basic earnings per ADR		**146.5p**	114.5p	95.5p
Diluted earnings per ADR		**142.0p**	112.5p	94.0p
Ordinary dividend per ADR (net)				
Interim		**6.0p**	5.0p	4.2p
Final		**12.8p**	10.5p	8.6p

The accompanying notes form an integral part of this profit and loss account.
The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 58 and 61 are also expressed in US dollars on pages 59 and 61 using the approximate average rate for the year for the profit and loss account (2000: $1.5162 = £1, 1999: $1.6178 = £1, 1998: $1.6574 = £1) and the rate in effect on 31 December for the balance sheet (2000: $1.4937 = £1, 1999: $1.6182 = £1, 1998: $1.6638 = £1).
This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.
There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by FRS 3. Movements in share owners' funds are set out in note 24.
The 1998 figures in the profit and loss account have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR in 1999.

* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of £438.9 million, operating profit of £61.5 million and PBIT of £66.4 million.

Consolidated profit and loss account (US dollars)

For the year ended 31 December 2000

	Notes	2000 Continuing Operations* $m	2000 Acquisitions (Young & Rubicam only) $m	2000 Total $m	1999 $m	1998 $m
Turnover (gross billings)	1	**18,516.9**	**2,633.2**	**21,150.1**	15,119.8	13,259.4
Cost of sales		**(14,542.5)**	**(2,088.3)**	**(16,630.8)**	(11,605.0)	(10,079.8)
Revenue	1	**3,974.4**	**544.9**	**4,519.3**	3,514.8	3,179.6
Direct costs		**(370.8)**	**–**	**(370.8)**	(513.3)	(473.9)
Gross profit		**3,603.6**	**544.9**	**4,148.5**	3,001.5	2,705.7
Operating costs	2	**(3,102.6)**	**(472.8)**	**(3,575.4)**	(2,575.2)	(2,326.0)
Operating profit		**501.0**	**72.1**	**573.1**	426.3	379.7
Income from associates		**53.7**	**3.9**	**57.6**	44.2	26.7
Profit on ordinary activities before interest and taxation	1	**554.7**	**76.0**	**630.7**	470.5	406.4
Net interest payable and similar charges	4	**(72.4)**	**(3.8)**	**(76.2)**	(57.3)	(53.7)
Profit on ordinary activities before taxation		**482.3**	**72.2**	**554.5**	413.2	352.7
Taxation on profit on ordinary activities	5			**(166.3)**	(123.9)	(111.0)
Profit on ordinary activities after taxation				**388.2**	289.3	241.7
Minority interests				**(17.1)**	(9.7)	(9.1)
Profit attributable to ordinary share owners				**371.1**	279.6	232.6
Ordinary dividends	6			**(57.3)**	(38.8)	(32.5)
Retained profit for the year				**313.8**	240.8	200.1
Earnings per share	7					
Basic earnings per ordinary share				**44.4¢**	37.0¢	31.7¢
Diluted earnings per ordinary share				**43.1¢**	36.4¢	31.2¢
Ordinary dividend per share	6					
Interim dividend				**1.82¢**	1.62¢	1.39¢
Final dividend				**3.87¢**	3.40¢	2.85¢
Earnings per ADR						
Basic earnings per ADR				**$2.22**	$1.85	$1.58
Diluted earnings per ADR				**$2.15**	$1.82	$1.56
Ordinary dividend per ADR (net)						
Interim				**9.4¢**	8.1¢	7.0¢
Final				**19.3¢**	17.0¢	14.3¢

The accompanying notes form an integral part of this profit and loss account.

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 58 and 61 are also expressed in US dollars on pages 59 and 61 using the approximate average rate for the year for the profit and loss account (2000: $1.5162 = £1, 1999: $1.6178 = £1, 1998: $1.6574 = £1) and the rate in effect on 31 December for the balance sheet (2000: $1.4937 = £1, 1999: $1.6182 = £1, 1998: $1.6638 = £1).

This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by FRS 3. Movements in share owners' funds are set out in note 24.

The 1998 figures in the profit and loss account have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR in 1999.

* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of $665.5 million, operating profit of $93.2 million and PBIT of $100.7 million.

Consolidated cash flow statement
For the year ended 31 December 2000

	Notes	**2000 £m**	1999 £m	1998 £m
Net cash inflow from operating activities	9	**623.0**	348.5	256.0
Dividends received from associates		**7.6**	4.3	3.4
Return on investments and servicing of finance	10	**(64.6)**	(37.1)	(28.7)
United Kingdom and overseas tax paid		**(81.4)**	(58.4)	(59.0)
Capital expenditure and financial investment	10	**(199.1)**	(80.5)	(82.1)
Acquisition payments	10	**(281.0)**	(202.2)	(115.5)
Equity dividends paid		**(25.6)**	(21.1)	(16.6)
Net cash outflow before financing		**(21.1)**	(46.5)	(42.5)
Net cash inflow from financing	10	**204.6**	270.0	78.1
Increase in cash and overdrafts for the year		**183.5**	223.5	35.6
Translation difference		**35.1**	(0.6)	0.9
Balance of cash and overdrafts at beginning of year		**551.4**	328.5	292.0
Balance of cash and overdrafts at end of year		**770.0**	551.4	328.5

	Notes	**2000 £m**	1999 £m	1998 £m
Reconciliation of net cash flow to movement in net funds:				
Increase in cash and overdrafts for the year		**183.5**	223.5	35.6
Cash inflow from increase in debt financing		**(126.6)**	(258.0)	(95.2)
Debt acquired		**(194.9)**	–	–
Other movements		**(1.9)**	(1.7)	(0.9)
Translation difference		**23.4**	(6.2)	0.1
Movement in net (debt)/funds in the year		**(116.5)**	(42.4)	(60.4)
Net funds at beginning of year	8	**91.9**	134.3	194.7
Net (debt)/funds at end of year	8	**(24.6)**	91.9	134.3

The accompanying notes form an integral part of this cash flow statement.

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2000

	Notes	**2000 £m**	1999 £m	1998 £m
Profit for the financial year		**244.7**	172.8	140.3
Exchange adjustments on foreign currency net investments	24	**(133.0)**	(31.2)	4.0
Total recognised gains and losses relating to the year		**111.7**	141.6	144.3
Prior year adjustment on implementation of FRS 19 (Deferred tax)		**28.0**		
Total gains and losses recognised since last annual report		**139.7**		

The accompanying note forms an integral part of this statement of total recognised gains and losses.

Consolidated balance sheet
As at 31 December 2000

	Notes	2000 £m	1999 Restated* £m	1998 Restated* £m	2000 $m	1999 Restated* $m	1998 Restated* $m
Fixed assets							
Intangible assets							
Corporate brands	13	**950.0**	350.0	350.0	**1,419.0**	566.4	582.3
Goodwill	13	**3,497.3**	410.3	158.0	**5,223.9**	663.9	262.9
Tangible assets	14	**390.2**	196.7	166.7	**582.8**	318.3	277.4
Investments	15	**551.5**	356.9	268.2	**823.8**	577.6	446.2
		5,389.0	1,313.9	942.9	**8,049.5**	2,126.2	1,568.8
Current assets							
Stocks and work in progress	16	**241.1**	113.5	107.3	**360.1**	183.7	178.5
Debtors	17	**2,181.0**	1,068.4	921.1	**3,257.8**	1,728.9	1,532.5
Debtors within working capital facility:	18						
Gross debts		**464.9**	345.7	294.5	**694.4**	559.4	490.0
Non-returnable proceeds		**(231.6)**	(214.1)	(209.2)	**(345.9)**	(346.4)	(348.1)
		233.3	131.6	85.3	**348.5**	213.0	141.9
Cash at bank and in hand		**1,067.6**	607.0	423.9	**1,594.7**	982.1	705.3
		3,723.0	1,920.5	1,537.6	**5,561.1**	3,107.7	2,558.2
Creditors: amounts falling due within one year	19	**(4,252.4)**	(2,148.0)	(1,777.3)	**(6,351.8)**	(3,475.9)	(2,957.1)
Net current liabilities		**(529.4)**	(227.5)	(239.7)	**(790.7)**	(368.2)	(398.9)
Total assets less current liabilities		**4,859.6**	1,086.4	703.2	**7,258.8**	1,758.0	1,169.9
Creditors: amounts falling due after more than one year (including convertible loan note)	20	**(1,279.6)**	(652.5)	(401.5)	**(1,911.3)**	(1,055.8)	(668.0)
Provisions for liabilities and charges	21	**(145.9)**	(79.2)	(77.9)	**(217.9)**	(128.2)	(129.6)
Net assets		**3,434.1**	354.7	223.8	**5,129.6**	574.0	372.3
Capital and reserves							
Called up share capital	23,24	**111.2**	77.5	76.6	**166.1**	125.4	127.4
Share premium account	24	**709.0**	602.9	562.9	**1,059.0**	975.6	936.5
Shares to be issued	24	**386.7**	–	–	**577.6**	–	–
Merger reserve	24	**2,630.2**	121.3	120.5	**3,928.7**	196.3	200.5
Other reserves	24	**(256.2)**	(123.2)	(92.0)	**(382.6)**	(199.4)	(153.1)
Profit and loss account	24	**(171.0)**	(332.3)	(452.3)	**(255.4)**	(537.7)	(752.5)
Equity share owners' funds		**3,409.9**	346.2	215.7	**5,093.4**	560.2	358.8
Minority interests		**24.2**	8.5	8.1	**36.2**	13.8	13.5
Total capital employed		**3,434.1**	354.7	223.8	**5,129.6**	574.0	372.3

The accompanying notes form an integral part of this balance sheet.

* The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.

Signed on behalf of the Board on 4 May 2001:
Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated profit and loss account

1 Segment information

The Group is the leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services. These services include advertising and media investment management, information and consultancy, public relations and public affairs, and branding & identity, healthcare and specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the United Kingdom and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions.

Contributions by geographical area were as follows:

	Continuing operations* £m	Acquisitions (Young & Rubicam only) £m	**Total 2000 £m**	Change %	1999 £m	Change %	1998 £m
Turnover							
United Kingdom	1,235.7	100.6	**1,336.3**	17.9	1,133.7	25.7	902.1
United States	5,158.9	864.9	**6,023.8**	49.8	4,021.3	13.8	3,534.9
Continental Europe	2,907.1	437.2	**3,344.3**	50.0	2,230.2	21.1	1,841.2
Canada, Asia Pacific, Latin America, Africa & Middle East	2,911.0	334.0	**3,245.0**	65.5	1,960.7	13.9	1,721.9
	12,212.7	1,736.7	**13,949.4**	49.3	9,345.9	16.8	8,000.1
Revenue							
United Kingdom	503.4	29.0	**532.4**	22.5	434.7	10.5	393.5
United States	1,096.8	176.8	**1,273.6**	39.2	915.2	19.7	764.4
Continental Europe	499.1	87.2	**586.3**	37.6	426.2	7.6	396.0
Canada, Asia Pacific, Latin America, Africa & Middle East	522.0	66.4	**588.4**	48.4	396.5	8.8	364.5
	2,621.3	359.4	**2,980.7**	37.2	2,172.6	13.3	1,918.4
PBIT[1]							
United Kingdom	61.5	1.5	**63.0**	22.3	51.5	22.0	42.2
United States	171.1	20.5	**191.6**	37.8	139.0	24.6	111.6
Continental Europe	67.8	14.1	**81.9**	46.8	55.8	1.5	55.0
Canada, Asia Pacific, Latin America, Africa & Middle East	65.4	14.1	**79.5**	78.7	44.5	22.3	36.4
	365.8	50.2	**416.0**	43.1	290.8	18.6	245.2

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	Continuing operations* £m	Acquisitions (Young & Rubicam only) £m	**Total 2000 £m**	Change %	1999 £m	Change %	1998 £m
Turnover							
Advertising and media investment management	10,100.9	1,354.7	**11,455.6**	49.0	7,690.1	16.8	6,582.5
Information & consultancy	517.5	0.0	**517.5**	21.6	425.5	8.6	391.9
Public relations & public affairs	287.3	135.2	**422.5**	112.2	199.1	20.9	164.7
Branding & identity, healthcare and specialist communications	1,307.0	246.8	**1,553.8**	50.7	1,031.2	19.8	861.0
	12,212.7	1,736.7	**13,949.4**	49.3	9,345.9	16.8	8,000.1
Revenue							
Advertising and media investment management	1,227.7	171.3	**1,399.0**	38.1	1,013.1	6.5	951.3
Information & consultancy	512.1	0.0	**512.1**	22.0	419.7	14.3	367.2
Public relations & public affairs	262.2	67.9	**330.1**	84.5	178.9	32.7	134.8
Branding & identity, healthcare and specialist communications	619.3	120.2	**739.5**	31.8	560.9	20.6	465.1
	2,621.3	359.4	**2,980.7**	37.2	2,172.6	13.3	1,918.4
PBIT[1]							
Advertising and media investment management	192.3	39.0	**231.3**	48.4	155.9	10.3	141.3
Information & consultancy	51.6	0.0	**51.6**	22.6	42.1	7.1	39.3
Public relations & public affairs	39.1	4.2	**43.3**	81.2	23.9	52.2	15.7
Branding & identity, healthcare and specialist communications	82.8	7.0	**89.8**	30.3	68.9	40.9	48.9
	365.8	50.2	**416.0**	43.1	290.8	18.6	245.2

[1] PBIT: Profit on ordinary activities before interest and taxation.
* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc.

2 Operating costs

	2000 £m	1999 £m	1998 £m
Total staff costs (note 3)	**1,617.6**	1,091.3	952.9
Establishment costs	**216.8**	158.3	142.4
Other operating expenses (net)	**522.4**	341.3	307.2
Loss on sale of tangible fixed assets	**1.3**	0.9	0.9
	2,358.1	1,591.8	1,403.4
Operating expenses include:			
Depreciation of tangible fixed assets	**63.8**	42.2	33.7
Amortisation of intangible fixed assets	**6.6**	–	–
Impairment of intangible fixed assets	**8.5**	–	–
Operating lease rentals:			
Property (excluding real estate taxes)	**125.2**	83.1	72.5
Plant and machinery	**21.8**	19.6	16.4
	147.0	102.7	88.9

2 Operating costs continued

Auditors' remuneration:			
Audit fees			
– Andersen	3.7	2.4	2.0
– other	0.4	0.3	0.3
	4.1	2.7	2.3
Fees in respect of other advisory work	6.4	3.7	2.8

Fees paid to the auditors in respect of other advisory work include advice to the Group on taxation, acquisitions and, in 2000, work performed in connection with the acquisition of Young & Rubicam Inc.

Minimum committed annual rentals

Amounts payable (net of taxes) in 2001 under the foregoing leases will be as follows:

	Plant and machinery			Property		
	2001 £m	2000 £m	1999 £m	**2001 £m**	2000 £m	1999 £m
In respect of operating leases which expire:						
– within one year	**5.4**	4.7	5.1	**10.2**	4.8	7.0
– within two to five years	**16.2**	15.9	13.2	**39.1**	24.7	20.4
– after five years	**0.3**	1.5	0.2	**62.3**	65.8	49.2
	21.9	22.1	18.5	**111.6**	95.3	76.6

Notes to the consolidated profit and loss account continued

2 Operating costs continued
Future minimum annual amounts payable (net of taxes) under lease commitments in existence at 31 December 2000 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2001	133.5	(11.3)	122.2
2002	158.7	(8.9)	149.8
2003	147.2	(8.1)	139.1
2004	120.0	(7.7)	112.3
2005	109.5	(7.2)	102.3
Later years (to 2011)	322.0	(44.6)	277.4
	990.9	(87.8)	903.1

3 Our people
Our staff numbers averaged 36,157 against 27,711 in 1999, up 31%, including acquisitions. Their geographical distribution was as follows:

	2000 Number	1999 Number	1998 Number
United Kingdom	**5,425**	4,439	3,973
United States	**11,058**	8,033	7,082
Continental Europe	**7,985**	5,650	4,922
Canada, Asia Pacific, Latin America, Africa & Middle East	**11,689**	9,589	9,612
	36,157	27,711	25,589

At the end of 2000 staff numbers were 51,195 compared with 29,168 in 1999.

Total staff costs were made up as follows:

	2000 £m	1999 £m	1998 £m
Wages and salaries	**1,125.1**	763.6	666.4
Payments and provisions charged under short- and long-term incentive plans	**118.3**	71.3	58.6
Social security costs	**120.5**	86.3	76.7
Other pension costs	**40.8**	27.7	20.7
Other staff costs	**212.9**	142.4	130.5
	1,617.6	1,091.3	952.9

Directors' emoluments are disclosed on page 87.

4 Net interest payable and similar charges	**2000 £m**	1999 £m	1998 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**3.2**	3.7	2.0
– repayable within five years, not by instalments	**38.7**	16.0	21.1
– on all other loans (including corporate bond)	**14.7**	14.1	6.9
Total interest payable	**56.6**	33.8	30.0
Interest receivable	**(22.5)**	(10.4)	(10.8)
Net interest payable	**34.1**	23.4	19.2
Charges in respect of working capital facilities	**16.2**	12.0	13.2
	50.3	35.4	32.4

Net interest payable increased to £34.1 million from £23.4 million, reflecting the increased level of acquisitions and share repurchases during the year.

Interest on the majority of the Group's borrowings, other than the USA bond, is payable at a margin of between 0.20% and 0.55% over relevant LIBOR depending on certain covenant conditions being met and, for a significant proportion of borrowings, is hedged to January 2003 at US dollar LIBOR rates of 6.25% or less (excluding margin costs).

The majority of the Group's long-term debt is represented by $300 million of USA bonds at a weighted average interest rate of 6.71% and $287.5 million of convertible bonds at a rate of 3%. Average borrowings under the Syndicated Revolving Credit Facilities (note 8) amounted to $422 million at an average interest rate of 6.2% (1999: 6.1%, 1998: 5.7%) inclusive of margin.

Derivative financial instruments
The Group entered into various types of US dollar interest rate contracts in managing its interest rate risk, as below. The rates below exclude margin costs.

	2000	1999	1998
Swaps			
Notional principal amount	**$350m**	$350m	$350m
Average pay rate	**6.17%**	6.17%	5.84%
Average receive rate	**LIBOR**	LIBOR	LIBOR
Average term	**5 months**	5 months	6 months
Latest maturity date	**Jan 2003**	Jan 2003	Jan 2003

The Group enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. Under the swap agreements the Group agrees with other parties to exchange, at specified intervals, the difference between the fixed strike rate and prevailing relevant floating US dollar LIBOR calculated by reference to the agreed notional principal amount.

The differential paid or received by the Group on the swap agreements is charged/(credited) to interest expense in the year to which it relates.

The term of such instruments is not greater than the term of the debt being hedged and any anticipated refinancing or extension of the debt.

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings.

Other than the above, the Group has no significant utilisation of derivative financial instruments.

The fair value of derivatives is disclosed in note 22. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 29 and 30.

5 Tax on profit on ordinary activities
The tax charge is based on the profit for the year and comprises:

	2000 £m	1999 £m	1998 £m
Corporation tax at 30.0% (1999: 30.25%, 1998: 31.0%)	**6.4**	12.4	12.9
Deferred taxation	**(10.6)**	(0.7)	–
Overseas taxation	**100.3**	56.5	51.4
Tax on profits of associate companies	**13.6**	8.1	6.8
Write-back of previously written-off ACT	**–**	–	(4.1)
Advance corporation tax written off	**–**	0.3	–
	109.7	76.6	67.0
Effective tax rate on profit before tax	**30.0%**	30.0%	31.5%

Reconciliation of the Group's tax to the United Kingdom statutory tax rate:

	2000 £m	1999 £m	1998 £m
Tax on pre-tax income at statutory rates of 30.0% (1999 30.25% and 1998: 31.0%)	**109.7**	77.3	66.0
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	**(4.1)**	(3.4)	4.3
Utilisation of tax losses brought forward	**(9.7)**	(4.7)	(5.6)
Unused tax losses carried forward	**9.4**	6.3	4.6
Differences between UK and overseas statutory standard tax rates	**4.4**	0.8	1.8
Write-back of previously written-off ACT	**–**	–	(4.1)
Advance corporation tax written off	**–**	0.3	–
Tax on profit on ordinary activities	**109.7**	76.6	67.0

There are tax losses available within the Young & Rubicam Inc. business which may be available to the group going forward.

6 Ordinary dividends

	2000	1999	1998	**2000**	1999	1998
	Pence per share			**£m**	£m	£m
Interim dividend paid	**1.20p**	1.0p	0.84p	**9.3**	7.8	6.2
Final dividend proposed	**2.55p**	2.1p	1.72p	**28.5**	16.2	13.4
	3.75p	3.1p	2.56p	**37.8**	24.0	19.6

No ACT is payable in respect of the 1998 final dividend, the 1999 and 2000 dividends, owing to the abolition of ACT with effect from April 1999.

7 Earnings per ordinary share
Basic and diluted earnings per share have been calculated in accordance with FRS 14 'Earnings per Share'.

Basic earnings per share have been calculated using earnings of £244.7 million (1999: £172.8 million, 1998: £140.3 million) and weighted average shares in issue during the year of 834,280,801 shares (1999: 753,324,054 shares, 1998: 735,700,122 shares).

Diluted earnings per share have been calculated using earnings of £244.7 million (1999: £172.8 million, 1998: £140.3 million), as adjusted for income arising on the convertible loan note of £0.9 million (1999: £nil, 1998: £nil). The weighted average shares used was 865,978,000 shares (1999: 768,691,993 shares, 1998: 746,939,733 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings and the $287.5 million of convertible bond.

Basic and diluted earnings per ADR have been calculated using the same method as for earnings per share, multiplied by a factor of five. The 1998 figures have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR.

Notes to the consolidated cash flow statement

8 Sources of finance
The following table is a supplementary disclosure to the consolidated cash flow statement, summarising the equity and debt financing of the Group, and changes during the year:

	2000 Shares £m	**2000 Debt £m**	1999 Shares £m	1999 Debt £m	1998 Shares £m	1998 Debt £m
Analysis of changes in financing						
Beginning of year	**680.4**	**459.5**	639.5	194.2	495.2	97.3
Shares issued in respect of acquisitions	**30.2**	**–**	–	–	132.7	–
Other issues of share capital	**109.6**	**–**	40.9	–	12.2	–
Shares bought back and cancelled	**–**	**–**	–	–	(0.6)	–
Increase in drawings on bank loans	**–**	**126.6**	–	258.0	–	97.3
Debt acquired	**–**	**194.9**	–	–	–	–
Amortisation/(payment) of financing costs included in net debt	**–**	**0.5**	–	1.7	–	(1.2)
Exchange adjustments on long-term borrowings	**–**	**13.1**	–	5.6	–	0.8
End of year	**820.2**	**794.6**	680.4	459.5	639.5	194.2

The above table excludes bank overdrafts which fall within cash for the purposes of the consolidated cash flow statement.

Shares
At 31 December 2000, the Company's share base was entirely composed of ordinary equity share capital and share premium of £820.2 million (1999: £680.4 million, 1998: £639.5 million), further details of which are disclosed in notes 23 and 24.

Debt
USA bond The Group has in issue US$200 million of 6.625% Notes due 2005 and US$100 million of 6.875% Notes due 2008.

Revolving Credit Facilities The Group's debt is also funded by a $500 million syndicated Revolving Credit Facility dated July 1998 and a $700 million facility dated August 2000. The $500 million facility is due to expire in July 2002 and the $700 million facility is due to expire in August 2001 although the Group has the ability to extend drawings under this facility until August 2003. The Group's syndicated borrowings drawn down under these agreements averaged $422 million during the year.

Borrowings under the Revolving Credit Facilities are governed by certain financial covenants based on the results and financial position of the Group.

Convertible Debt
In October 2000, with the purchase of Young &Rubicam Inc., the Group acquired $287.5 million of 3% Convertible Notes due 15 January 2005. At the option of the holder, the notes are convertible into shares of our common stock at a conversion price of $87.856 per ADR. The notes may be redeemed at WPP's option on or after 20 January 2003. Additionally, under certain circumstances, holders of the notes may have the right to require WPP to repurchase the notes. Interest on the notes is payable on 15 January and 15 July of each year, beginning on 15 July 2000. The notes are unsecured obligations of Y&R and are guaranteed by WPP.

The following table is an analysis of net funds with debt analysed by year of repayment:

	2000 £m	**Change[1] in year £m**	1999 £m	Change in year £m	1998 £m
Debt					
Within one year	**–**	**92.7**	(92.7)	(92.7)	–
Between one and two years	**–**	**–**	–	–	–
Between two and five years	**(727.7)**	**(544.6)**	(183.1)	(168.0)	(15.1)
Over five years – by instalments	**(66.9)**	**116.8**	(183.7)	(4.6)	(179.1)
Debt financing under the Credit Facility Agreement and from unsecured loan notes	**(794.6)**	**(335.1)**	(459.5)	(265.3)	(194.2)
Short-term overdrafts – within one year	**(297.6)**	**(242.0)**	(55.6)	39.8	(95.4)
Cash at bank and in hand	**1,067.6**	**460.6**	607.0	183.1	423.9
Net (debt)/funds	**(24.6)**	**(116.5)**	91.9	(42.4)	134.3

[1]Includes £194.9 million of debt, £117.1 million of short-term overdrafts and £83.5 million of cash at bank acquired.

8 Sources of finance continued
Analysis of fixed and floating rate debt by currency:

Currency	£m	Fixed rate[1]	Floating basis	Period (months)[1]
US$	624.9[2]	5.37%	n/a	42
US$	148.0	n/a	LIBOR	n/a
£	178.0	n/a	LIBOR	n/a
Euro	71.6	n/a	LIBOR	n/a
Other	3.7	n/a	various	n/a
	1,026.2			

[1]Weighted average.
[2]Including drawings on working capital facility as described in note 18.

9 Reconciliation of operating profit to net cash inflow from operating activities	**2000 £m**	1999 £m	1998 £m
Operating profit	**378.0**	263.5	229.1
Depreciation, amortisation and impairment charge	**78.9**	42.2	33.7
Decrease/(increase) in working capital and provisions	**164.8**	41.9	(7.7)
Loss on sale of tangible fixed assets	**1.3**	0.9	0.9
Net cash inflow from operating activities	**623.0**	348.5	256.0

The following table analyses the changes in working capital and provisions that have contributed to the net cash inflow from operating activities in the consolidated cash flow statement:

	2000 £m	1999 £m	1998 £m
Changes in working capital and provisions			
(Increase)/decrease in stocks and work in progress	**(14.7)**	(1.5)	0.2
(Increase)/decrease in debtors	**(434.9)**	(165.3)	23.9
Increase/(decrease) in creditors – short term	**537.8**	155.4	(29.2)
– long term	**1.7**	43.2	(7.9)
Increase in provisions	**74.9**	10.1	5.3
Decrease/(increase) in working capital and provisions	**164.8**	41.9	(7.7)

10 Analysis of non-operating cash flows
The following tables analyse the items included within the main cash flow headings on page 60:

	2000 £m	1999 £m	1998 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(74.8)**	(42.0)	(36.8)
Interest received	**17.9**	9.3	10.6
Dividends paid to minorities	**(7.7)**	(4.4)	(2.5)
Net cash outflow	**(64.6)**	(37.1)	(28.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 14)	**(111.9)**	(64.6)	(51.6)
Purchase of own shares by ESOP trust (note 15)	**(94.1)**	(17.9)	(33.3)
Proceeds from sale of tangible fixed assets	**6.9**	2.0	2.8
Net cash outflow	**(199.1)**	(80.5)	(82.1)
Acquisition payments			
Cash consideration for acquisitions	**(206.5)**	(242.2)	(111.8)
Less (overdraft)/cash acquired	**(33.6)**	51.8	6.1
Net purchase of other investments	**(40.9)**	(11.8)	(9.8)
Net cash outflow	**(281.0)**	(202.2)	(115.5)
Financing activities			
Increase/(reduction) in drawings on bank loans	**126.6**	258.0	(81.4)
Share buy-backs	**–**	–	(21.3)
Financing costs	**–**	–	(2.3)
Proceeds from issue of shares	**78.0**	12.0	4.3
Proceeds from issue of bond	**–**	–	178.8
Net cash inflow	**204.6**	270.0	78.1

Long-term debt repayments are due as follows:

	2000 £m
2001	**–**
2002	**–**
2003	**402.8**
2004	**–**
2005	**324.9**
2006 and beyond	**66.9**

Notes to the consolidated balance sheet

11 Major non-cash transactions

A certain proportion of the consideration for the acquisitions of subsidiary undertakings during the year comprised the issue of shares. Further details are given in note 25.

12 Segment information

Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	2000	1999 Restated*	1998 Restated*	**2000**	1999 Restated*	1998 Restated*
	£m	£m	£m	**£m**	£m	£m
United Kingdom	**981.8**	624.6	436.9	**144.4**	143.2	54.0
United States	**5,131.0**	990.4	651.4	**2,631.0**	(296.0)	(331.9)
Continental Europe	**1,454.5**	714.7	621.2	**296.9**	144.4	95.6
Canada, Asia Pacific, Latin America, Africa & Middle East	**1,544.7**	904.7	771.0	**386.4**	271.2	271.8
	9,112.0	3,234.4	2,480.5	**3,458.7**	262.8	89.5
Net interest bearing (debt)/funds				**(24.6)**	91.9	134.3
Net assets in the consolidated balance sheet				**3,434.1**	354.7	223.8

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	2000	1999 Restated*	1998 Restated*	**2000**	1999 Restated*	1998 Restated*
	£m	£m	£m	**£m**	£m	£m
Advertising and media investment management	**6,494.9**	1,878.8	1,644.0	**2,582.4**	(231.3)	(111.2)
Information & consultancy	**630.1**	455.0	294.8	**154.6**	173.5	71.8
Public relations & public affairs	**552.7**	247.7	167.8	**223.3**	121.4	68.3
Branding & identity, healthcare and specialist communications	**1,434.3**	652.9	373.9	**498.4**	199.2	60.6
	9,112.0	3,234.4	2,480.5	**3,458.7**	262.8	89.5
Net interest bearing (debt)/funds				**(24.6)**	91.9	134.3
Net assets in the consolidated balance sheet				**3,434.1**	354.7	223.8

Certain items, including the valuation of corporate brand names, have been allocated within the above analyses on the basis of the revenue of the subsidiary undertakings to which they relate.

*The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements, increasing the deferred tax asset by £28 million.

13 Intangible fixed assets

	2000 £m	1999 £m	1998 £m
Corporate brand names	**950.0**	350.0	350.0

Brought forward corporate brand names represent J. Walter Thompson, Hill and Knowlton and Ogilvy & Mather Worldwide. The Group has capitalised an additional £600 million for the corporate brand names from the Young & Rubicam Group, which was acquired during the year. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 56.

Goodwill	£m
1 January 1999	158.0
Additions	252.3
31 December 1999	410.3
Additions	3,102.1
Amortisation	(6.6)
Impairment	(8.5)
31 December 2000	**3,497.3**

Additions represent goodwill arising on the acquisition of subsidiary undertakings. This includes £2,818.5 million arising from the acquisition of Young & Rubicam Inc., which was completed on 4 October 2000. Goodwill arising on the acquisition of associate undertakings is shown within fixed asset investments in note 15.
Gross goodwill of £131.0 million is subject to amortisation.

14 Tangible fixed assets

The movements in 2000 and 1999 were as follows:

	Land and buildings				
Cost:	Freehold[1] £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 1999	11.6	124.9	98.3	131.6	366.4
Additions	0.3	13.0	15.3	36.0	64.6
New acquisitions	0.4	5.0	7.7	5.3	18.4
Disposals	–	(2.8)	(3.0)	(7.7)	(13.5)
Exchange adjustments	0.1	1.5	0.6	(1.0)	1.2
31 December 1999	12.4	141.6	118.9	164.2	437.1
Additions	1.0	31.2	22.4	57.3	111.9
New acquisitions	57.8	66.2	111.4	104.0	339.4
Disposals	(0.6)	(6.0)	(9.0)	(10.2)	(25.8)
Exchange adjustments	(0.3)	6.8	3.6	4.3	14.4
31 December 2000	**70.3**	**239.8**	**247.3**	**319.6**	**877.0**
Depreciation:					
1 January 1999	2.8	50.9	61.9	84.1	199.7
New acquisitions	0.1	2.2	3.5	2.4	8.2
Charge	0.3	8.7	11.8	21.4	42.2
Disposals	–	(1.9)	(2.0)	(6.7)	(10.6)
Exchange adjustments	0.1	1.0	0.4	(0.6)	0.9
31 December 1999	3.3	60.9	75.6	100.6	240.4
New acquisitions	15.5	29.9	74.3	69.9	189.6
Charge	0.7	13.5	10.0	39.6	63.8
Disposals	(0.5)	(1.8)	(5.2)	(10.1)	(17.6)
Exchange adjustments	(0.3)	3.9	3.1	3.9	10.6
31 December 2000	**18.7**	**106.4**	**157.8**	**203.9**	**486.8**
Net book value:					
31 December 2000	**51.6**	**133.4**	**89.5**	**115.7**	**390.2**
31 December 1999	9.1	80.7	43.3	63.6	196.7
1 January 1999	8.8	74.0	36.4	47.5	166.7

[1]Includes land of £18.3 million.
Leased assets (other than leasehold property) included above have a net book value of £3.6 million (1999: £3.1 million, 1998: £2.3 million).

At the end of the year, capital commitments contracted, but not provided for were:

	2000 £m	1999 £m	1998 £m
Capital commitments	**12.6**	1.4	0.6

15 Fixed asset investments
The following are included in the net book value of fixed asset investments:

	Associate under-takings £m	Goodwill on associate under-takings £m	Own shares £m	Other invest-ments £m	Total £m
1 January 1999	86.4	90.6	58.1	33.1	268.2
Additions	2.6	–	17.9	19.2	39.7
Goodwill arising on acquisition of new associates	–	40.5	–	–	40.5
Share of profits after tax of associate undertakings	19.2	–	–	–	19.2
Dividends and other movements	(6.3)	–	–	(1.5)	(7.8)
Exchange adjustments	7.6	–	–	–	7.6
Disposals	(2.3)	–	(4.7)	(3.5)	(10.5)
31 December 1999	107.2	131.1	71.3	47.3	356.9
Additions	50.6	–	94.1	42.3	187.0
Goodwill arising on acquisition of new associates	–	5.1	–	–	5.1
Share of profits after tax of associate undertakings	22.1	–	–	–	22.1
Dividends	(7.4)	–	–	–	(7.4)
Other movements	(2.0)	5.8	–	(5.8)	(2.0)
Exchange adjustments	(4.7)	–	–	–	(4.7)
Disposals	–	–	(5.2)	(0.3)	(5.5)
31 December 2000	**165.8**	**142.0**	**160.2**	**83.5**	**551.5**

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Batey Ads (Pte) Limited	32.4	Singapore
Brierley & Partners	20.0	USA
Chime Communications PLC	24.9	United Kingdom
DYR Tokyo Agency[1]	49.0	Japan
High Co S.A.	30.0	France
IBOPE Group	31.0	Brazil
Singleton, Ogilvy & Mather (Holdings) Pty Limited	40.7	Australia

[1]acquired in 2000

The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Option Plan ('ESOP') trust of shares in WPP Group plc for the purpose of funding certain of the Group's long-term incentive plan liabilities, details of which are disclosed in the Compensation committee report on pages 92 to 99.

The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds provided by the Company. The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its administrative costs.

The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 2000 was 36,208,185, (1999: 27,888,766, 1998: 25,532,484) and £315.7 million (1999: £273.6 million, 1998: £93.4 million) respectively.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2000 was as follows: Asatsu-DK – £166.0 million, Chime Communications PLC – £76.5 million, High Co S.A. – £19.8 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Other investments include a UK listed investment of £24.3 million (1999: £24.3 million, 1998: £19.9 million). This represents an interest of 17.5% (1999: 18.1%, 1998: 17.9%) in the ordinary share capital of Tempus Group PLC, Europe's second largest independent media investment manager.

16 Stocks and work in progress
The following are included in the net book value of stocks and work in progress:

	2000 £m	1999 £m	1998 £m
Work in progress	**238.2**	110.4	104.5
Stocks	**2.9**	3.1	2.8
	241.1	113.5	107.3

17 Debtors
The following are included in debtors:

	2000 £m	1999 Restated* £m	1998 Restated* £m
Amounts falling due within one year			
Trade debtors outside working capital facility	**1,699.4**	770.0	678.9
VAT and sales taxes recoverable	**20.9**	13.5	4.0
Corporate income taxes recoverable	**13.2**	8.7	9.9
Deferred tax	**57.4**	28.0	28.0
Other debtors	**229.6**	143.4	126.5
Prepayments and accrued income	**121.4**	64.3	46.8
	2,141.9	1,027.9	894.1
Amounts falling due after more than one year			
Other debtors	**31.2**	34.7	20.5
Prepayments and accrued income	**7.9**	5.8	6.5
	39.1	40.5	27.0
	2,181.0	1,068.4	921.1

Movements on bad debt provisions were as follows:

	2000 £m	1999 £m	1998 £m
Balance at beginning of year	**16.6**	16.5	15.6
Charged/(credited):			
To costs and expenses	**16.5**	4.0	4.6
Exchange adjustments	**0.8**	(0.1)	(0.4)
Other	**(10.5)**	(3.8)	(3.3)
Balance at end of year	**23.4**	16.6	16.5

The allowance for doubtful debts is equivalent to 1.2% (1999: 1.8%, 1998: 2.1%) of gross trade accounts receivable.

A deferred tax asset of £77 million has not been recognised on losses available to carry forward across the Group. These will be offsettable only against taxable profits generated in the entities concerned, and currently there is insufficient evidence that any asset would be recoverable.

*The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The impact of this restatement is to increase debtors falling due within one year by £28.0 million in 1998 and 1999. There was no impact on the tax charge in 1998 or 1999 as a result of this restatement.

18 Debtors within working capital facility
The following are included in debtors within the Group's working capital facilities:

	2000 £m	1999 £m	1998 £m
Gross debts	**464.9**	345.7	294.5
Non-returnable proceeds	**(231.6)**	(214.1)	(209.2)
	233.3	131.6	85.3

Within the Group's overall working capital facilities, certain trade debts have been assigned as security against the advance of cash. This security is represented by the assignment of a pool of trade debts, held by one of the Group's subsidiaries, to a trust for the benefit of the providers of this working capital facility. The financing provided against this pool takes into account, *inter alia*, the risks that may be attached to individual debtors and the expected collection period.

The Group is not obliged (and does not intend) to support any credit-related losses arising from the assigned debts against which cash has been advanced. The providers of the finance have confirmed in writing that, in the event of default in payment by a debtor, they will only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that repayment will not be sought from the Group in any other way.

19 Creditors: amounts falling due within one year
The following are included in creditors falling due within one year:

	2000 £m	1999 £m	1998 £m
Bank loans and overdrafts (note 8)	**297.6**	148.3	95.4
Trade creditors	**2,574.9**	1,315.0	1,102.4
Corporate income taxes payable	**42.4**	34.6	50.0
Other taxation and social security	**122.5**	68.9	52.0
Dividends proposed	**28.5**	16.2	13.4
Payments due to vendors	**94.1**	41.2	14.3
Other creditors and accruals	**824.8**	398.0	338.7
Deferred income	**267.6**	125.8	111.1
	4,252.4	2,148.0	1,777.3

Bank loans and overdrafts include overdrafts of £297.6 million (1999: £55.6 million, 1998: £95.4 million).

20 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	2000 £m	1999 £m	1998 £m
Corporate bond, convertible loan note and bank loans (note 8)	**794.6**	366.8	194.2
Corporate income taxes payable	**212.5**	122.9	91.3
Payments due to vendors	**208.2**	131.2	83.6
Other creditors and accruals	**64.3**	31.6	32.4
	1,279.6	652.5	401.5

21 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Pensions and other post-retirement benefits £m	Long-term incentive plans £m	Other £m	Total £m
1 January 1999	42.7	21.8	13.4	77.9
Charged to the profit and loss account	4.1	15.2	2.5	21.8
New acquisitions	–	–	0.8	0.8
Utilised	(3.2)	(14.4)	(1.8)	(19.4)
Transfers	0.4	–	(0.3)	0.1
Exchange adjustments	(2.1)	–	0.1	(2.0)
31 December 1999	41.9	22.6	14.7	79.2
Charged to the profit and loss account	5.1	17.5	1.2	23.8
New acquisitions	25.3	–	27.6	52.9
Utilised	(2.8)	(9.3)	(4.1)	(16.2)
Transfers	0.2	–	2.1	2.3
Exchange adjustments	0.7	1.4	1.8	3.9
31 December 2000	**70.4**	**32.2**	**43.3**	**145.9**

During the year £7.9 million of excess provisions relating to prior year acquisitions were released to the profit and loss account.

21 Provisions for liabilities, charges and contingent liabilities continued

Long-term incentive plans

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 2000 that may become payable after more than one year, as described in the Compensation committee report on pages 92 to 99.

Other provisions

Other provisions comprise other liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount. These include certain contingent liabilities where the liklihood of settlement is considered probable.

Contingent liabilities

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims will have a material adverse effect on the Group's financial position or on the results of its operations.

Pension provisions and pension arrangements

Companies within the Group operate a large number of both defined benefit and defined contribution pension schemes, the forms and benefits of which vary with conditions and practices in the countries concerned.

The Group's pension costs are analysed as follows:

	2000 £m	1999 £m	1998 £m
Defined contribution schemes	**25.3**	21.4	14.7
Defined benefit schemes	**10.7**	6.4	5.9
	36.0	27.8	20.6

Defined benefit schemes

Defined benefit schemes exist in many countries. However, the principal schemes are operated in the US, UK and Japan.

Pension costs for these schemes are assessed in accordance with actuarial advice.[†] Valuations of the principal schemes have generally been carried out as at 31 December 2000. The following table discloses the method and assumptions used to derive the pensions charge for the principal schemes:

			Main actuarial assumptions						
	2000 Pension cost £m	Market valuation of assets[1] £m	Valuation method	Investment return % pa	Salary increases % pa	Pension increases % pa	Dividend growth % pa	Spreading method	Funding ratio %
US Schemes									
O&M Account Balance Plan	**4.1**	51.6	projected unit	7.5	5.50	nil	n/a	straight line	97%
Ogilvy PR	**0.8**	4.0	projected unit	8.0	5.25	nil	n/a	straight line	83%
Y&R Pension Plan	**0.1**	91.4	projected unit	8.25	7.57	nil	n/a	straight line	102%
UK Schemes									
O&M Pension Plan	**0.9**	74.8	Attained Age	9.50	6.00	5.0	5.00	Fixed % of pay	97%
JWT Pension Scheme	**0.7**	45.0	Attained Age	6(pre)/5.25(post)	4.00	3.0	n/a	Fixed % of pay	93%
JWT Directors' Scheme	**0.3**	28.6	Attained Age	6(pre)/5.25(post)	0.00	3.0	n/a	Fixed % of pay	90%
Japan Schemes									
JWT Employee Retirement Plan	**2.3**	0.8	projected unit	3.00	2.00	nil	n/a	straight line	11%

† From an independent qualified actuary.

1 All schemes allow for the market value of assets for funding and accounting purposes, except for the UK O&M Pension Plan, which allows for an actuarial value of assets of £46.2 million.

22 Fair value of financial instruments

Derivative financial instruments

The fair value of derivatives, based on the amount that would be receivable or (payable) if the Group had sought to enter into such transactions, based on quoted market prices where possible, was as follows:

	31 March 2001	31 December 2000	31 December 1999
	Swaps £m	Swaps £m	Swaps £m
Fair value	**(3.8)**	(0.5)	3.7
Book value	**nil**	nil	nil

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 2000 does not differ materially from their aggregate carrying values recorded in the consolidated balance sheet.

The Group has used the methods and assumptions detailed below to estimate the fair values of the Group's financial instruments.

Cash, accounts receivable, accounts payable, overdrafts and short-term borrowings (including those drawn under the Revolving Credit Facilities) – considered to approximate to fair value because of the short maturity of such instruments.

The fair value of our US$300 million bonds and £287.5 million convertible debt at 31 December 2000 was £394.0 million. This is calculated by reference to market prices at 31 December 2000. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange.

23 Authorised and issued share capital

	2000 Number m	**2000 £m**	1999 Number m	1999 £m	1998 Number m	1998 £m
Authorised:						
Equity ordinary shares of 10p each	**1,750**	**175.0**	1,250	125.0	1,250	125.0
Issued:						
Equity ordinary shares of 10p each	**1,111.9**	**111.2**	774.5	77.5	766.5	76.6

Movements in each year are shown in note 24.

Share options

As at 31 December 2000, unexercised options over ordinary shares of 20,342,000 and unexercised options over ADRs of 16,373,106 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
39,879	1.330	1996 – 2001
91,474	0.560	1997 – 2002
90,052	0.295	1995 – 2002
161,183	1.020	1996 – 2003
19,194	1.150	1997 – 2004
1,503,799	1.190	1997 – 2004
834,181	1.080	1998 – 2005
3,088,265	1.540	1998 – 2005
918,723	2.140	1999 – 2006
3,630,607	2.335	1999 – 2006
12,074	2.535	2000 – 2007
3,478,770	2.835	2000 – 2007
30,132	3.030	2001 – 2008
4,333,770	2.930	2001 – 2008
47,450	3.270	2001 – 2008
419,811	5.185	2002 – 2009
766,479	5.700	2002 – 2009
94,691	10.770	2003 – 2010
781,466	9.010	2003 – 2010

23 Authorised and issued share capital continued

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
2,241,707	2.300	2000 – 2006
1,708,927	9.200	2000 – 2006
243,173	9.200	2000 – 2007
4,062,843	14.750	2000 – 2007
34,504	14.750	2000 – 2008
42,397	17.150	2000 – 2008
125,250	17.950	2000 – 2008
33,400	29.950	2000 – 2008
125,250	34.000	2000 – 2008
470,426	34.050	2000 – 2008
16,700	34.150	2000 – 2008
76,820	35.650	2000 – 2008
146,125	37.150	2000 – 2008
1,714,551	44.600	2000 – 2009
8,350	45.800	2000 – 2009
477,228	46.475	2002 – 2009
78,885	46.550	2000 – 2009
8,350	47.700	2000 – 2009
16,700	48.200	2000 – 2010
16,700	48.500	2000 – 2009
104,375	48.800	2000 – 2009
4,175	50.300	2000 – 2010
1,155,546	51.050	2001 – 2010
1,155,546	51.050	2002 – 2010
1,155,546	51.050	2003 – 2010
8,350	51.350	2000 – 2009
16,700	51.850	2000 – 2009
35,070	53.450	2000 – 2009
253,005	54.050	2000 – 2009
2,088	54.800	2000 – 2009
4,175	54.850	2000 – 2009
8,350	55.300	2000 – 2009
75,150	56.300	2000 – 2009
4,886	56.300	2000 – 2010
12,525	57.200	2000 – 2009
2,227	59.650	2001 – 2010
2,227	59.650	2002 – 2010
2,227	59.650	2003 – 2010
6,976	60.000	2003 – 2010
1,392	60.350	2001 – 2010
1,392	60.350	2002 – 2010
1,392	60.350	2003 – 2010
6,263	60.500	2000 – 2010
4,830	62.110	2005 – 2010
106,694	62.110	2003 – 2010
402,505	63.263	2003 – 2010
2,227	63.450	2001 – 2010
2,227	63.450	2002 – 2010
2,227	63.450	2003 – 2010
6,958	63.700	2001 – 2010
6,958	63.700	2002 – 2010
6,958	63.700	2003 – 2010
1,948	63.750	2001 – 2010
1,948	63.750	2002 – 2010
1,948	63.750	2003 – 2010
33,400	64.350	2000 – 2010
2,783	64.600	2001 – 2010
2,783	64.600	2002 – 2010
2,783	64.600	2003 – 2010
1,391	65.100	2001 – 2010
1,391	65.100	2002 – 2010
1,391	65.100	2003 – 2010
7,120	66.700	2001 – 2010
7,120	66.700	2002 – 2010
7,120	66.700	2003 – 2010
2,227	67.050	2001 – 2010
2,227	67.050	2002 – 2010
2,227	67.050	2003 – 2010
2,783	68.500	2001 – 2010
2,783	68.500	2002 – 2010
2,783	68.500	2003 – 2010
15,865	71.800	2000 – 2010
1,058	72.600	2001 – 2010
1,058	72.600	2002 – 2010
1,058	72.600	2003 – 2010
41,428	84.485	2003 – 2010
15,030	84.750	2000 – 2010

23 Authorised and issued share capital continued
As at 31 December 2000, unexercised options totalling 4,634,490 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
WPP Worldwide Share Ownership Programme		
266,325	2.695	2000 – 2007
1,762,075	3.030	2001 – 2008
1,394,225	5.315	2002 – 2009
1,211,865	7.790	2003 – 2010

Further grants were made on 19 March 2001 of 1,024 options on ordinary shares at £8.11 exercisable between 2005 and 2011; 2,560 options on ordinary shares at £8.11 exercisable between 2004 and 2005; 133,877 options on ordinary shares at £8.11 exercisable between 2004 and 2011; 69,805 options on ADRs at $58.2375 exercisable between 2004 and 2011.

The aggregate status of the WPP Share Option Schemes during 2000 was as follows:

Movement on options granted (represented in ordinary shares)

	1 January 2000 number	Granted number	Granted as consideration for the acquisition of Y&R	Exercised number	Lapsed number	31 December 2000 number
WPP	32,940,834	6,419,489	–	6,196,125	2,989,401	30,174,797
Y&R	–	–	105,229,764	28,562,541	–	76,667,223
	32,940,834	6,419,489	105,229,764	34,758,666	2,989,401	106,842,020

Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.2950–10.77	3.15	79.51

Options outstanding over ADRs

Range of exercise prices $	Weighted average exercise price $	Weighted average contractual life Months
2.30–84.75	28.94	91.79

23 Authorised and issued share capital continued
The weighted average fair value of options granted in the year calculated using the Black-Scholes model, was as follows:

	2000	1999	1998
Fair value of UK options (shares)	**286.1p**	134.0p	71.5p
Fair value of US options (ADRs)	**$16.18**	–	–
Weighted average assumptions:			
UK Risk-free interest rate	**6.02%**	5.23%	5.84%
US Risk-free interest rate	**5.94%**	–	–
Expected life (months)	**36**	36	36
Expected volatility	**40%**	28%	25%
Dividend yield	**0.6%**	0.6%	0.6%

Options are issued at an exercise price equal to market value on the date of grant.

The weighted average fair value of the awards made under the Leadership Equity Acquisition Program ('LEAP') in the year, calculated using the Black-Scholes model, were as follows:

	2000	1999
Fair value	**299.9p**	233.8p
Weighted average assumptions:		
Risk-free interest rate	**5.80%**	5.23%
Expected life (months)	**48**	60
Expected volatility	**40%**	28%
Dividend yield	**0.6%**	0.6%

LEAP awards were made at an exercise price equal to market value on the date of grant.

24 Share owners' funds
Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves £m	Profit and loss account[1] £m	Total £m
Balance at 1 January 1998	**73.6**	**421.6**	**–**	**–**	**(1,082.0)**	**561.6**	**(25.2)**
FRS 19 (Deferred tax) Restatement	–	–	–	–	–	28.0	28.0
Adjusted balance at 1 January 1998	**73.6**	**421.6**	**–**	**–**	**(1,082.0)**	**589.6**	**2.8**
1998 movements							
Ordinary shares issued in respect of acquisitions	3.1	129.6	–	–	–	(27.3)[2]	105.4
Other ordinary shares issued	0.5	11.7	–	–	–	(8.1)	4.1
Transfers between reserves	–	–	–	120.5	985.4	(1,105.9)	–
Currency translation movement	–	–	–	–	4.0	–	4.0
Retained profit for the financial year	–	–	–	–	–	120.7	120.7
Share buy-backs	(0.6)	–	–	–	0.6	(21.3)	(21.3)
Adjusted balance at 31 December 1998	**76.6**	**562.9**	**–**	**120.5**	**(92.0)**	**(452.3)**	**215.7**
1999 movements							
Ordinary shares issued	0.9	40.0	–	0.8	–	(28.8)[2]	12.9
Currency translation movement	–	–	–	–	(31.2)	–	(31.2)
Retained profit for the financial year	–	–	–	–	–	148.8	148.8
Adjusted balance at 31 December 1999	**77.5**	**602.9**	**–**	**121.3**	**(123.2)**	**(332.3)**	**346.2**
2000 movements							
Ordinary shares issued in respect of acquisitions	**30.2**	**–**	**547.3**	**2,383.3**	**–**	**–**	**2,960.8**
Exercises of options granted on acquisition of Young & Rubicam Inc.	**2.9**	**62.5**	**(160.6)**	**160.6**	**–**	**(13.9)**	**51.5**
Share issue costs charged to merger reserve	**–**	**–**	**–**	**(35.0)**	**–**	**–**	**(35.0)**
Other ordinary shares issued	**0.6**	**43.6**	**–**	**–**	**–**	**(31.7)[2]**	**12.5**
Currency translation movement	**–**	**–**	**–**	**–**	**(133.0)**	**–**	**(133.0)**
Retained profit for the financial year	**–**	**–**	**–**	**–**	**–**	**206.9**	**206.9**
Balance at 31 December 2000	**111.2**	**709.0**	**386.7**	**2,630.2**	**(256.2)**	**(171.0)**	**3,409.9**

Other reserves at 31 December 2000 comprise: currency translation deficit £257.5 million (1999: £124.5 million, 1998: £93.3 million), capital redemption reserve £1.3 million (1999: £1.3 million, 1998: £1.3 million), goodwill write-off reserve £nil (1999: £nil, 1998: £1,160.4 million).

[1] Share owners' funds have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The impact of this on opening funds of £318.2 million as previously reported, is to increase these to £346.2 million as restated.

[2] Represents the difference between the legal share capital and premium, recorded on the issue of new shares to satisfy option exercises, and the cash proceeds received on exercise.

Notes to the consolidated balance sheet continued

25 Acquisition of Young & Rubicam, Inc.
On 4 October 2000 the Company finalised its acquisition of Young & Rubicam Inc. As a result the value of the consideration which was satisfied entirely by the issue of new WPP ordinary shares or WPP American Depositary Shares has been calculated by reference to the opening WPP share price on 4 October 2000 of £7.99.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value at acquisition £m	Accounting policy alignments[1] £m	Fair value adjustments[2] £m	Fair value to Group £m
Goodwill and intangible fixed assets	34.5	(8.6)	597.8[i]	623.7
Tangible fixed assets	128.6	(5.1)	14.4[ii]	137.9
Investments	102.8	–	(54.1)[iii]	48.7
Current assets	1,113.5	–	(164.8)[iv]	948.7
Total assets	**1,379.4**	**(13.7)**	**393.3**	**1,759.0**
Payments due to vendors within one year	–	(15.0)	–	(15.0)
Other creditors due within one year	(1,104.3)	–	(51.7)[v]	(1,156.0)
Payments due to vendors after one year	–	(53.0)	–	(53.0)
Other creditors due after one year	(281.5)	–	–	(281.5)
Provision for reorganisation and restructuring[3]	(23.9)	–	–	(23.9)
Other provisions	(39.9)	–	(19.6)[vi]	(59.5)
Total liabilities	**(1,449.6)**	**(68.0)**	**(71.3)**	**(1,588.9)**
Net assets	**(70.2)**	**(81.7)**	**322.0**	**170.1**
Minority interest				(9.7)
Goodwill				2,818.5
Consideration				2,978.9
Consideration satisfied by:				
Shares issued				2,412.1
Shares to be issued				547.3
Capitalised acquisition costs				19.5
				2,978.9

Notes
The table above sets out the details of the merger with Young & Rubicam Inc., which was completed on 4 October 2000 and has been accounted for as an acquisition.

1 **Accounting policy alignments**
These comprise adjustments to bring the assets and liabilities of Young & Rubicam Inc. into compliance with WPP Group plc's UK GAAP accounting practices and policies. These adjustments include recognition of contingent consideration due to vendors based upon the directors' best estimate of payments likely to be made as at the date of acquisition.

2 **Fair value adjustments**
These comprise adjustments to bring the book value of the assets and liabilities of Young & Rubicam Inc. to fair value:
(i) Recognition of the corporate brand name of Young & Rubicam Inc.
(ii) Revaluation of freehold interest in Young & Rubicam's New York offices at 285 Madison Avenue to fair value and write down of certain other tangible fixed assets, primarily computer equipment, to fair value.
(iii) Revaluation of internet investments to fair value.
(iv) Restatement of deferred tax assets.
(v) Recognition of accrual for social taxes payable on share options and accruals for the costs of legal cases existing at the date of acquisition.
(vi) Provision for certain contingent liabilities where the likelihood of settlement is considered probable at the date of acquisition.

3 **Provision for reorganisation and restructuring**
Accruals for severance payments arising from change in control clauses in employee contracts, triggered as a result of the acquisition by WPP Group plc.

Net cash outflows in respect of the acquisition of Young & Rubicam Inc. comprised:

	£m
Cash at bank and in hand acquired	78.2
Bank overdrafts acquired	(99.7)
Share issue and acquisition costs	(24.6)
	(46.1)

Young & Rubicam Inc. contributed £203.4 million to the Group's net operating cash flows, paid £3.3 million in respect of net returns on investment and servicing of finance, paid £7.2 million in respect of taxation and utilised £21.9 million for capital expenditure.

25 Acquisition of Young & Rubicam, Inc. continued
The summarised profit and loss accounts and statements of total recognised gains and losses of Young & Rubicam Inc. for the period from 1 January 2000 to 4 October 2000 and the year ended 31 December 1999 are summarised below. These amounts are shown in US Dollars, on the basis of the accounting policies of Young & Rubicam Inc. prior to the acquisition. The post acquisition contribution of Young & Rubicam Inc. is shown on the face of the group's profit and loss account on pages 58 and 59.

Young & Rubicam Inc. Profit and loss account – period ended 4 October 2000	Period ended 4 October 2000 $USm	Year ended 31 December 1999 $USm
Turnover	6,208.1	8,530.9
Cost of sales	(4,796.1)	(6,813.7)
Gross profit	1,412.0	1,717.2
Other operating expenses (net)	(1,276.2)	(1,509.1)
Operating profit	135.8	208.1
Exceptional items:		
Merger costs	(66.0)	–
Other income[1]	12.2	85.0
Finance charges (net)	(13.9)	(14.8)
Profit on ordinary activities before taxation	68.1	278.3
Tax on profit on ordinary activities	(47.3)	(111.3)
Profit on ordinary activities after taxation	20.8	167.0
Equity income[2]	3.0	4.5
Minority interests	(2.2)	(4.4)
Profit for the financial period	21.6	167.1

Statement of comprehensive income	$USm	$USm
Profit for the financial period	21.6	167.1
Unrealised (deficit)/surplus on revaluation of equity securities	(177.0)	145.0
Loss on foreign currency translation	(22.7)	(22.3)
Minimum pension liability	–	0.4
Total recognised gains and losses relating to the period	(178.1)	290.2

[1]Other income in the period ended 4 October 2000 includes the gain on sale of certain assets and rights known as Y&R Teamspace to eMotion Inc. and other net gains from investing activities, including additional consideration received as a result of achieving revenue and operating profit performance targets of the Brand Dialogue assets contributed to Luminant Worldwide corporation in 1999.
Other income in 1999 includes the net pre-tax gain on the sale of certain assets of Brand Dialogue operations in exchange for an ownership interest in Luminant and additional consideration received as a result of achieving revenue and operating profit performance targets of the Brand Dialogue contributed assets.
[2]Equity income has been presented below profit on ordinary activities after taxation in accordance with US GAAP.

Other acquisitions
The Group undertook a number of other acquisitions in the year. Goodwill arising on these acquisitions was calculated as follows:

	Book value £m	Fair value adjustments £m	Fair value £m	Cost of acquisition £m	Goodwill £m
Sifo Research & Consulting	(10.6)	(2.8)	(13.4)	30.9	44.3
Other	11.9	(28.3)	(16.4)	212.9	229.3
	1.3	(31.1)	(29.8)	243.8	273.6

Goodwill above of £273.6 million includes £268.5 million in respect of the acquisition of subsidiary undertakings and £5.1 million in respect of associate undertakings. Included in these amounts are £141.6 million of cash paid and £102.2 million of additional future anticipated payments to vendors, based on the directors' best estimates of future obligations, which are dependent on future performance of the interests acquired. Cash paid to vendors in respect of consideration accrued in prior years amounted to £40.3 million.

Fair value adjustments of £31.1 million arising on these acquisitions include £17.1 million of additional tax liabilities and £14.0 million of other liabilities.

26 Principal operating subsidiary undertakings
A list of the principal operating subsidiary undertakings is given on pages 4 and 5. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

Company balance sheet
As at 31 December 2000

	Notes	2000 £m	1999 £m	1998 £m
Fixed assets				
Tangible assets	27	**13.4**	10.3	5.8
Investments	28	**6,042.2**	1,808.6	1,661.1
		6,055.6	1,818.9	1,666.9
Current assets				
Debtors (including amounts falling due after more than one year)	29	**148.0**	88.7	60.4
Cash at bank and in hand		**49.2**	2.4	1.2
		197.2	91.1	61.6
Creditors: amounts falling due within one year	30	**(997.3)**	(370.8)	(329.6)
Net current liabilities		**(800.1)**	(279.7)	(268.0)
Total assets less current liabilities		**5,255.5**	1,539.2	1,398.9
Creditors: amounts falling due after more than one year	31	**(192.9)**	(441.2)	(346.2)
Net assets		**5,062.6**	1,098.0	1,052.7
Capital and reserves				
Called up share capital	32	**111.2**	77.5	76.6
Share premium account	32	**709.0**	602.9	562.9
Shares to be issued	32	**386.7**	–	–
Merger reserve	32	**2,665.2**	121.3	120.5
Other reserves	32	**91.5**	91.5	91.5
Profit and loss account	32	**1,099.0**	204.8	201.2
Total equity capital employed		**5,062.6**	1,098.0	1052.7

The accompanying notes form an integral part of this balance sheet.

Signed on behalf of the Board on 4 May 2001:
Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

As provided by Section 230, Companies Act 1985, the profit and loss account for the Company has not been presented. Included within the consolidated profit and loss account for the financial year is a profit of £932.1 million (1999: profit of £27.6 million, 1998: loss of £8.8 million) in respect of the Company. This includes dividend income received from subsidiaries of £923.0 million (1999: £39.3 million, 1998: £31.5 million).

Notes to the Company balance sheet

27 Tangible fixed assets

The movements in 2000 and 1999 were as follows:

Costs:	Short lease-hold £m	Fixtures, fittings and equip-ment £m	Com-puter equip-ment £m	Total £m
1 January 1999	1.2	0.8	7.2	9.2
Additions	0.4	–	5.4	5.8
31 December 1999	1.6	0.8	12.6	15.0
Additions	0.5	0.1	5.2	5.8
Disposals	(0.8)	(0.4)	(2.8)	(4.0)
31 December 2000	**1.3**	**0.5**	**15.0**	**16.8**
Depreciation:				
1 January 1999	0.8	0.6	2.0	3.4
Charge	0.2	–	1.1	1.3
31 December 1999	1.0	0.6	3.1	4.7
Charge	0.2	0.1	1.8	2.1
Disposals	(0.8)	(0.4)	(2.2)	(3.4)
31 December 2000	**0.4**	**0.3**	**2.7**	**3.4**
Net book value:				
31 December 2000	**0.9**	**0.2**	**12.3**	**13.4**
31 December 1999	0.6	0.2	9.5	10.3
1 January 1999	0.4	0.2	5.2	5.8

28 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Subsidiary under-takings £m	Own shares £m	Total £m
1 January 1999	1,603.0	58.1	1,661.1
Additions	308.1	17.9	326.0
Disposals	(108.9)	(4.7)	(113.6)
Return of capital from subsidiary undertakings	(64.9)	–	(64.9)
31 December 1999	1,737.3	71.3	1,808.6
Additions	5,581.0	94.1	5,675.1
Disposals	(1,436.3)	(5.2)	(1,441.5)
31 December 2000	5,882.0	160.2	6,042.2

Further details of the Company's holdings of own shares are detailed in note 15 to the consolidated balance sheet.

29 Debtors

The following are included in debtors:

	2000 £m	1999 £m	1998 £m
Amounts owed by subsidiary undertakings	**112.2**	49.7	28.8
Other debtors	**35.8**	39.0	31.6
	148.0	88.7	60.4

Included within amounts owed by subsidiary undertakings are loans totalling £nil (1999: £nil, 1998: £5.2 million) which fall due for repayment after more than one year.

30 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	2000 £m	1999 £m	1998 £m
Bank loans and overdrafts	**10.9**	25.5	49.1
Amounts due to subsidiary undertakings	**912.2**	313.8	245.1
Taxation and social security	**0.8**	10.6	6.9
Dividends proposed	**28.5**	16.2	13.3
Other creditors and accruals	**44.9**	4.7	15.2
	997.3	370.8	329.6

31 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	2000 £m	1999 £m	1998 £m
Bank loans	**–**	180.3	10.0
Amounts due to subsidiary undertakings	**182.7**	252.0	323.9
Other creditors and accruals	**10.2**	8.9	12.3
	192.9	441.2	346.2

The following is an analysis of all bank loans and unsecured loan notes by year of repayment:

	2000 £m	1999 £m	1998 £m
Within two to five years	**–**	180.3	10.0

The Company's bank loans and overdrafts form part of the Group's facilities under the Revolving Credit Facility (note 8).

32 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	77.5	602.9	–	121.3	91.5	204.8
Ordinary shares issued in respect of acquisitions	30.2	–	547.3	2,383.3	–	–
Exercise of options granted on acquisition of Young & Rubicam Inc.	2.9	62.5	(160.6)	160.6	–	–
Other ordinary shares issued	0.6	43.6	–	–	–	–
Retained profit for the financial year	–	–	–	–	–	894.2
	111.2	709.0	386.7	2,665.2	91.5	1,099.0

Other reserves at 31 December 2000 comprise: Currency translation deficit £37.2 million (1999: £37.2 million, 1998: £37.2 million), capital redemption reserve £1.3 million (1999: £1.3 million, 1998: £1.3 million) and capital reserve £127.4 million (1999: £127.4 million, 1998: £127.4 million).

At 31 December 2000 the Company's distributable reserves amounted to £197.3 million. Further details of the Company's movements in share capital are shown in notes 23 and 24.

Reconciliation to US Accounting Principles

The following is a summary of the significant adjustments to profit and ordinary share owners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied:

	Notes	2000 £m	1999* £m	1998* £m
		For the year ended 31 December		
Net income				
Profit attributable to ordinary share owners under UK GAAP		**244.7**	172.8	140.3
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	1	**(83.2)**	(42.1)	(38.2)
Executive compensation	1	**(38.3)**	(58.4)	(2.6)
Contingent consideration deemed as compensation	1	**(8.6)**	–	–
Deferred tax items	1	**8.3**	9.6	0.9
		(121.8)	(90.9)	(39.9)
Net income as adjusted for US GAAP		**122.9**	81.9	100.4
Statement of comprehensive income				
Net income as adjusted for US GAAP		**122.9**	81.9	100.4
Revaluation of investments marked to market		**(6.8)**	41.2	–
Foreign currency net investment		**(133.0)**	(31.2)	4.0
Total recognised gains & losses relating to the period		**(16.9)**	91.9	104.4
Earnings per share				
Basic earnings per share as adjusted for US GAAP (p)	2	**14.7**	10.9	13.6
Diluted earnings per share as adjusted for US GAAP (p)	2	**14.1**	10.6	13.4

A reconciliation from UK to US GAAP in respect of earnings per share is shown below.

The Company applies US APB Opinion 25 and related interpretations when accounting for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS Statement 123 'Accounting for Stock-Based Compensation', the Company's net income and earnings per share under US GAAP would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
Net income as adjusted for US GAAP:			
As reported (£m)	**122.9**	81.9	100.4
Pro forma (£m)	**116.0**	77.7	97.7
Basic earnings per share per US GAAP:			
As reported (p)	**14.7**	10.9	13.6
Pro forma (p)	**13.9**	10.3	13.3

Further details regarding stock option plans and the fair valuation of option grants can be found in note 23.

	Notes	2000 £m	1999* £m	1998* £m
		As at 31 December		
Share owners' funds				
Share owners' funds under UK GAAP		**3,409.9**	346.2	215.7
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	**834.5**	685.2	762.7
Revaluation of investments marked to market		**34.4**	41.2	–
Contingent consideration deemed as compensation	1	**(8.6)**	–	–
Shares owned by Employee Share Option Plan (ESOP)	1	**(160.2)**	(71.3)	(58.1)
Deferred tax items	1	**14.3**	6.0	(3.6)
Proposed final ordinary dividend, not yet declared	1	**28.5**	16.2	13.4
Other		**(3.7)**	(3.9)	(4.4)
		739.2	673.4	710.0
Share owners' funds as adjusted for US GAAP	2	**4,149.1**	1,019.6	925.7

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £4,776.8 million (1999: £1,582.6 million, 1998: £1,509.5 million), net of disposals made. The movement in goodwill arises due to the impact of acquisitions made during the year and also its denomination in various currencies, resulting in exchange rate movements against sterling.

Movement in share owners' funds under US GAAP

	2000 £m	1999* £m	1998* £m
Net income for the year under US GAAP	**122.9**	81.9	100.4
Prior year final dividend	**(16.2)**	(13.4)	(10.5)
Current year interim dividend	**(9.3)**	(7.8)	(6.2)
Retained earnings for the year	**97.4**	60.7	83.7
Ordinary shares issued in respect of acquisitions	**3,225.3**	0.8	105.4
Share issue costs charged to merger reserve	**(35.0)**	–	–
Share options exercised	**64.0**	12.1	4.1
Shares owned by Employee Share Option Plan	**(88.9)**	(13.2)	(31.1)
Revaluation of investments marked to market	**(6.8)**	41.2	–
Share buy-backs	**–**	–	(21.3)
Exchange adjustments:			
– Revaluation of goodwill	**(31.8)**	(34.9)	43.1
– Foreign currency net investment	**(133.0)**	(31.2)	4.0
Executive compensation	**38.3**	58.4	2.6
New additions to share owners' funds	**3,129.5**	93.9	190.5
Share owners' funds at 1 January	**1,019.6**	925.7	735.2
Share owners' funds at 31 December	**4,149.1**	1,019.6	925.7

*The 1999 and 1998 balance sheets and net income statements have been restated as a result of the implementation of FRS 19 (Deferred Tax) in the Group's 2000 financial statements.

Notes to the Reconciliation to US Accounting Principles

1 Significant differences between UK and US Accounting Principles

The Group's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable in the UK which differ in certain significant respects from those applicable in the US. These differences relate principally to the following items:

Goodwill. US purchase accounting and long-lived assets

Under US and UK GAAP, purchase consideration in respect of subsidiaries acquired is allocated on the basis of fair values to the various net assets, including intangible fixed assets, of the subsidiaries at the dates of acquisition and any net balance is treated as goodwill. Under UK GAAP, and in accordance with FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions on or after 1 January 1998 has been capitalised as an intangible asset. For certain acquisitions, where the directors consider it more appropriate, goodwill is amortised over its useful life up to a 20 year period, from the date of acquisition. The remaining goodwill and intangible assets of the Group are considered to have an infinite economic life for the reasons described in the note on accounting policies in the financial statements. Goodwill arising on acquisitions before 1 January 1998 was fully written off against share owners' equity, in accordance with the then preferred treatment under UK GAAP. Under US GAAP, goodwill in respect of business combinations accounted for as purchases would be charged against income over its estimated useful life, being not more than 40 years. Accordingly, for US GAAP purposes, the Group is amortising goodwill over 40 years. The Group evaluates the carrying value of its tangible and intangible assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount. An impairment loss is recognised when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows if the asset is expected to be held and used.

Contingent consideration

Under UK GAAP, the Group provides for contingent consideration as a liability when it considers the likelihood of payment as probable. Under US GAAP, contingent consideration is not recognised until the liability is determined beyond reasonable doubt. At 31 December 2000, the Group's liabilities for vendor payments under UK GAAP totalled £302.3 million (1999: £172.4 million, 1998: £97.9 million). As these liabilities are represented by goodwill arising on acquisition, there is no net effect on shareholders' funds. In certain transactions the Group considers that there is a commercial need to tie in vendors to the businesses acquired however believe that, in substance, payments made under earnouts represent purchase consideration rather than compensation for services. Under US GAAP, payments made to vendors which are conditional upon them remaining in employment with the company under earnout are required to be treated as compensation, regardless of the substance of the transaction, and the anticipated compensation expense is therefore accrued on a systematic basis over the earnout period.

Share consideration

Under UK GAAP, the share consideration for the acquisition of Young & Rubicam, Inc. was measured by reference to the opening share price on 4 October 2000 of £7.99, which was when the acquisition became effective. The relevant measurement date for US GAAP was 12 May 2000, being the date of the announcement of the proposed acquisition and its recommendation to share owners by the respective Boards of directors of WPP Group plc and Young & Rubicam, Inc. The opening share price on 12 May 2000 was £8.45.

Corporate brand names

Under UK GAAP, the Group carries corporate brand names as intangible fixed assets in the balance sheet. The initial recognition of the J. Walter Thompson corporate brand was booked as a revaluation in the year following acquisition and is not recognised under US GAAP. The Ogilvy & Mather and Young & Rubicam Inc. brand names, acquired as part of The Ogilvy Group, Inc. and Young & Rubicam Inc. respectively, were booked as acquisition adjustments to balance sheet assets acquired and are amortised as part of goodwill over 40 years.

Notes to the Reconciliation to US Accounting Principles continued

1 Significant differences between UK and US Accounting Principles continued

Dividends
Under UK GAAP, final ordinary dividends are provided in the financial statements on the basis of recommendation by the directors. This requires subsequent approval by the share owners to become a legal obligation of the Group. Under US GAAP, dividends are provided only when the legal obligation to pay arises.

Deferred tax
The Group adopted FRS 19 (Deferred Tax) during the year and, for UK GAAP, the Group now accounts for deferred tax in accordance with the policy described in the note on accounting policies in the financial statements. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised.

Executive compensation
The Group adopted FRS 19 (Deferred Tax) during the year and, for UK GAAP, the Group now accounts for deferred tax in accordance with the policy described in the note on accounting policies in the financial statements. Under US GAAP such compensation is measured at the fair value of WPP common stock at the date the performance condition is met or the award vests with the employee. Differences occur as the WPP Share Ownership Plan acquires stock before the liability to the employee arises.

Additionally, under UK GAAP stock options granted with performance criteria do not give rise to a profit and loss account charge provided that the exercise price is equal to the fair value of the stock at the date of grant. Under US GAAP stock options granted with performance criteria (other than a requirement for employment to continue) are subject to variable plan accounting under APB Opinion 25. Under variable plan accounting any appreciation in stock value from the date of grant to the date upon which the performance conditions are satisfied is charged to the profit and loss account.

Cash flows
Under UK GAAP the Group complies with the Financial Reporting Standard No. 1 Revised 'Cash Flow Statements' (FRS 1 Revised), the objective and principles of which are similar to those set out in SFAS 95 'Statement of Cash Flows' (SFAS). The principal difference between the two standards is in respect of classification. Under FRS 1 Revised, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; (e) equity dividends paid and (f) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing. Cash flows arising from taxation and returns on investment and servicing of finance under FRS 1 Revised would be included as a financing activity under SFAS 95. Payments made against provisions set up on the acquisition of subsidiaries have been included in investing activities in the consolidated statement of cash flows. Under US GAAP these payments would be included in determining net cash provided by operating activities.

Shares owned by Employee Share Option Plan (ESOP)
Under UK GAAP, shares purchased by the ESOP are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, these shares are recorded at cost and deducted from share owners' equity.

The Group's ESOPs comprise trusts which acquire WPP shares in the open market to fulfil obligations under the Group's stock-based compensation plans. These trusts do not meet the definition of an 'ESOP' under US GAAP.

Listed investments
Under UK GAAP, the carrying value of listed investments, where these represent an interest of less than 20%, is determined as cost less any provision for diminution in value. Under US GAAP, such investments are marked to market and any resulting unrealised gain or loss is taken to share owners' funds. Where the decline in value is other than temporary, the resulting loss would be taken to the profit and loss account under both UK and US GAAP. The material listed investments of the Group are considered to be 'available for sale' securities under US GAAP.

2 Earnings per share – reconciliation from UK to US GAAP
Both basic and diluted earnings per share under US GAAP have been calculated by dividing the net income as adjusted for US GAAP differences by the weighted average number of shares in issue during the year. The calculation of the weighted average number differs for UK and US GAAP purposes as follows:

Year ended 31 December 2000	Basic earnings per share No.	Diluted earnings per share No.
Under UK GAAP	834,280,801	865,978,000
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2000	–	4,830,727
Under US GAAP	834,280,801	870,808,727
Year ended 31 December 1999		
Under UK GAAP	753,324,054	768,691,993
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 1999	–	5,430,846
Under US GAAP	753,324,054	774,122,839
Year ended 31 December 1998		
Under UK GAAP	735,700,122	746,939,733
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 1998	–	4,115,097
Under US GAAP	735,700,122	751,054,830

3 Accounting for Derivative Instruments and Hedging Activities
In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards in the United States requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognised currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Statement 133, as amended by Statement 137, is effective for fiscal years beginning after 15 June 2000. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning 16 June 1998 and thereafter). Statement 133 cannot be applied retroactively. Statement 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after 31 December 1997.

The Group has not yet quantified the impact of adopting Statement 133 on the amounts presented under US generally accepted accounting standards. However, the Statement could increase volatility in earnings and other comprehensive income.

Five-year summary

	2000 £m	1999 Restated* £m	1998 Restated* £m	1997 Restated* £m	1996 Restated* £m
Profit and loss					
Turnover (gross billings)	**13,949.4**	9,345.9	8,000.1	7,287.3	7,084.0
Revenue	**2,980.7**	2,172.6	1,918.4	1,746.7	1,691.3
Operating profit	**378.0**	263.5	229.1	194.9	170.1
Profit on ordinary activities before taxation	**365.7**	255.4	212.8	177.4	153.3
Profit attributable to ordinary share owners	**244.7**	172.8	140.3	116.0	100.0
Balance sheet					
Fixed assets	**5,389.0**	1,313.9	942.9	564.0	534.4
Net current liabilities	**(529.4)**	(227.5)	(239.7)	(258.3)	(119.6)
Creditors: amounts falling due after more than one year	**(1,279.6)**	(652.5)	(401.5)	(221.5)	(281.7)
Provisions for liabilities and charges	**(145.9)**	(79.2)	(77.9)	(74.5)	(78.2)
Net assets	**3,434.1**	354.7	223.8	9.7	54.9
Net (debt)/funds	**(24.6)**	91.9	134.3	194.7	159.2
Average net debt	**(423.0)**	(206.0)	(143.0)	(115.0)	(145.0)

	2000	1999	1998	1997	1996
Our people					
Revenue per employee (£000)	**82.4**	78.4	75.0	76.2	79.9
Gross profit per employee (£000)	**75.7**	67.0	63.8	64.1	67.9
Operating profit per employee (£000)	**10.5**	9.5	9.0	8.5	8.0
Average headcount	**36,157**	27,711	25,589	22,909	21,166
Share information					
Basic earnings per ordinary share (net basis)	**29.3p**	22.9p	19.1p	15.8p	13.6p
Diluted earnings per share (net basis)	**28.4p**	22.5p	18.8p	15.7p	13.5p
Dividends per share	**3.75p**	3.1p	2.56p	2.13p	1.7p
Dividend cover (1)	**7.6**	7.3	7.3	7.4	7.9
Share price – high	**1,324p**	996p	470p	292p	254p
– low	**693p**	359p	200p	237p	157p
Market capitalisation at year-end (£m)	**9,631.2**	7,598.3	2,803.8	1,984.4	1,883.2

Notes

1 Diluted earnings per share (net basis) divided by dividends per share.

* The 1999-1996 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.

Consolidated profit and loss account: euro illustration
For the year ended 31 December 2000

	2000				
	Continuing operations* €m	Acquisitions (Young & Rubicam only) €m	Total €m	1999 €m	1998 €m
Turnover (gross billings)	20,063.0	2,853.1	22.916.1	14,207.6	11,817.0
Cost of sales	(15,756.7)	(2,262.7)	(18,019.4)	(10,904.8)	(8,983.3)
Revenue	4,306.3	590.4	4,896.7	3,302.8	2,833.7
Direct costs	(401.8)	–	(401.8)	(482.4)	(422.3)
Gross profit	3,904.5	590.4	4,494.9	2,820.4	2,411.4
Operating costs	(3,361.7)	(512.2)	(3,873.9)	(2,419.8)	(2,073.0)
Operating profit	542.8	78.2	621.0	400.6	338.4
Income from associates	58.1	4.3	62.4	41.5	23.8
Profit on ordinary activities before interest and taxation	600.9	82.5	683.4	442.1	362.2
Net interest payable and similar charges	(78.5)	(4.1)	(82.6)	(53.8)	(47.9)
Profit on ordinary activities before taxation	522.4	78.4	600.8	388.3	314.3
Tax on profit on ordinary activities			(180.2)	(116.5)	(98.9)
Profit on ordinary activities after taxation			420.6	271.8	215.4
Minority interests			(18.6)	(9.1)	(8.1)
Profit attributable to ordinary share owners			402.0	262.7	207.3
Ordinary dividends			(62.1)	(36.5)	(29.0)
Retained profit for the year			339.9	226.2	178.3
Earnings per share (net basis)					
Basic earnings per ordinary share			48.1¢	34.8¢	28.2¢
Diluted earnings per ordinary share			46.7¢	34.2¢	27.8¢
Ordinary dividend per share					
Interim dividend			1.97¢	1.52¢	1.24¢
Final dividend			4.19¢	3.19¢	2.54¢

The consolidated profit and loss account and balance sheet have been presented in euros for illustrative purposes only using the approximate average rate for the year for the profit and loss account (2000: €1.6428 = £1, 1999: €1.5202 = £1, 1998: €1.4771 = £1) and the rate in effect on 31 December for the balance sheet (2000: €1.5912 = £1, 1999: €1.6056 = £1, 1998: €1.4169 = £1). This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into euros at the rates indicated.

* The figures presented for continuing operations include 2000 acquisitions other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of €721.0 million, operating profit of €101.0 million and PBIT of €109.1 million.

Consolidated balance sheet: euro illustration
As at 31 December 2000

	2000 €m	1999 Restated* €m	1998 Restated* €m
Fixed assets			
Intangible assets:			
Corporate brands	**1,511.6**	561.9	495.9
Goodwill	**5,565.0**	658.8	223.9
Tangible assets	**620.9**	315.8	236.2
Investments	**877.5**	573.0	380.0
	8,575.0	2,109.5	1,336.0
Current assets			
Stocks and work in progress	**383.6**	182.2	152.0
Debtors	**3,470.4**	1,715.4	1,305.1
Debtors within working capital facility:			
Gross debts	**739.7**	555.1	417.3
Non-returnable proceeds	**(368.5)**	(343.8)	(296.4)
	371.2	211.3	120.9
Cash at bank and in hand	**1,698.8**	974.6	600.6
	5,924.0	3,083.5	2,178.6
Creditors: amounts falling due within one year	**(6,766.4)**	(3,448.8)	(2,518.3)
Net current liabilities	**(842.4)**	(365.3)	(339.7)
Total assets less current liabilities	**7,732.6**	1,744.2	996.3
Creditors: amounts falling due after more than one year	**(2,036.1)**	(1,047.7)	(568.9)
Provisions for liabilities and charges	**(232.2)**	(127.2)	(110.4)
Net assets/(liabilities)	**5,464.3**	569.3	317.0
Capital and reserves			
Called up share capital	**176.9**	124.4	108.5
Share premium account	**1,128.2**	968.0	797.5
Shares to be issued	**615.3**	–	–
Merger reserve	**4,185.2**	194.7	170.7
Other reserves	**(407.7)**	(197.8)	(130.3)
Profit and loss account	**(272.1)**	(533.6)	(640.8)
Equity share owners' funds	**5,425.8**	555.7	305.6
Minority interests	**38.5**	13.6	11.4
Total capital employed	**5,464.3**	569.3	317.0

* The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.

Financial glossary

Term used in annual report	US equivalent or brief description
Advance corporation tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income (until 6 April 1999, when abolished)
Allotted	Issued
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Combined Code	The 'Principles of Good Governance' and the provisions of the 'Code of Best Practice' issued by the Hampel Committee on Corporate Governance and the London Stock Exchange
Creditors	Accounts payable
Creditors: amounts falling due after more than one year	Long-term debt
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Hampel Committee	UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
Profit attributable to ordinary share owners	Net income
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories
Tangible fixed assets	Property and equipment
Turnbull Report	Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange

Auditors' report

Independent auditors' report to the share owners of WPP Group plc

We have audited the financial statements of WPP Group plc for the year ended 31 December 2000, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Company Balance Sheet and the related notes (excluding foreign currency convenience translations). These financial statements have been prepared under the historical cost convention and the accounting policies set out therein. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors, as set out in the section on Directors' Remuneration and Interests.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance statement, included in the Directors' Responsibilities section, reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only Letter to Share Owners, the Operating and Financial Review and the Stewardship and Remuneration section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS
4 May 2001

Stewardship and remuneration

Board of directors

Philip Lader Age 54 Chairman (non-executive)
Philip Lader was appointed chairman in February 2001. He has had a distinguished international career in business, education and government. He served as US Ambassador to the Court of St. James's from 1997 to 2001, and previously held other executive posts in the US government. Before entering government service, he was executive vice president of the company managing the late Sir James Goldsmith's US holdings and president of universities in the US and Australia. He serves as a senior advisor at Morgan Stanley International and is a director of AES Corporation and RAND Corporation. He is also a Trustee of the British Museum.

Sir Martin Sorrell Age 56 Group chief executive
Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year. He is a non-executive director of Colefax & Fowler Group plc. and a member of the NASDAQ board.
e-mail: msorrell@wpp.com

Paul Richardson Age 43 Group finance director
Paul Richardson became Group finance director of WPP in December 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide finance function, including external reporting, taxation, procurement, property and treasury. Previously he spent six years with the central team of Hanson plc financing major acquisitions and disposals. He is a chartered accountant and member of the Association of Corporate Treasurers. He is a non-executive director of Chime Communications PLC and Singleton Group in Australia. e-mail: prichardson@wpp.com

Brian Brooks Age 45 Chief human resources officer
Brian Brooks joined WPP in September 1992. He is responsible for the recruitment and development of senior talent throughout the Group, as well as career and succession planning for key people. He manages WPP stock ownership plans, as well as incentive and total remuneration programs, in partnership with each WPP company. Previously he was a partner in Towers Perrin in New York and London. He is a lawyer and is admitted to practise law.
e-mail: bbrooks@wpp.com

Eric Salama Age 40 Group director of strategy and chief executive of wpp.com
Eric Salama joined the parent company in 1994 and the Board in July 1996. He is responsible for the Group's interactive development and for developing and implementing the Group's strategy. He is an adviser to the UK Government in the fields of creative and media industries and education and a Trustee of the British Museum. Previously he was joint managing director of The Henley Centre, a WPP company.
e-mail: esalama@wpp.com

Michael Dolan Age 54 Chairman and chief executive officer of Young & Rubicam Inc.
Michael J. Dolan was appointed a director in September 2000. He is chief executive of Young & Rubicam Inc. and has been a vice chairman, president, chief operating officer and chief financial officer and a director of Young & Rubicam Inc. since July 1996. Before joining Young & Rubicam Inc. in 1996 as vice chairman and chief financial officer, he was president and chief executive officer of Snack Ventures Europe, the joint venture between PepsiCo Foods International and General Mills. Prior to PepsiCo, he was with Peter Kiewet Sons Inc., the construction and mining conglomerate, from 1987 through 1991. Prior to this he was a partner in the Strategy Practice with Booz Allen & Hamilton, having begun his career with J P Morgan. He is a director of Luminant Worldwide Corporation, Thomas Weisel Partners and Gamut Interactive.

Jeremy Bullmore Age 71 Non-executive director
Jeremy Bullmore was appointed a director in 1988 after 33 years at J. Walter Thompson, London, the last 11 as chairman. He was chairman of the Advertising Association from 1981 to 1987 and continues to write and lecture extensively on marketing and advertising. He is also a non-executive director of the Guardian Media Group plc and president of NABS.

Esther Dyson Age 49 Non-executive director
Esther Dyson was appointed a director in June 1999. She is chairman of EDventure Holdings, the pioneering US-based information technology and new media company. She is an acknowledged luminary in the technology industry, highly influential in her field for the past 16 years, with a state-of-the-art knowledge of the emerging information technology industry worldwide and the emerging computer markets of Central and Eastern Europe. An investor as well as an observer, she sits on the boards of Audumbla, Manugistics, IBS Group, Scala Business Solutions and GreaterTalent.com among others.

Warren Hellman Age 66 Non-executive director
Warren Hellman was appointed a director in September 2000 and has been a director of Young & Rubicam Inc. since December 1996. He is chairman of Hellman and Friedman LLC, a private investment company he founded in 1984. Previously, Mr. Hellman was a general partner of Hellman, Ferri Investment Associates, Matrix Management Company, Matrix II Management Company, and Lehman Brothers. At Lehman Brothers he served as president, as well as head of the Investment Banking Division, and chairman of Lehman Corporation. He is currently a director of Levi Strauss & Co., Il Fornaio America Corp., Sugar Bowl Corporation, and D. N. & E. Walter & Co. He is chairman of the San Francisco Foundation, Trustee Emeritus of The Brookings Institution, and member of the University of California, Berkeley Walter A. Haas School of Business Advisory Board.

Masao Inagaki Age 78 Non-executive director
Masao Inagaki was appointed a director in September 1998 following WPP's equity investment in Asatsu-DK, Japan's third largest advertising and communications company. He founded Asatsu in 1956 and has been chairman and chief executive officer since 1992. He is also vice president of the Japan Advertising Agencies Association. In January 1999, Asatsu Inc, became Asatsu-DK as a result of Asatsu's merger with DIK.

John Jackson Age 71 Non-executive director
John Jackson was appointed a director in 1993. He is chairman of Hilton Group plc, Celltech Group plc and a number of other public companies. He is also the non-solicitor chairman of Mishcon de Reya. He has extensive experience of a broad range of businesses, including television broadcasting, high technology industries, retailing, publishing, printing, biotechnology, electronics and pharmaceuticals.

Michael Jordan Age 65 Non-executive director
Michael Jordan was appointed a director in September 2000 and has been a director of Young & Rubicam Inc. since December 1999. He is executive chairman of Clariti Telecommunications International Ltd., chairman of Luminant Worldwide Corporation, and chairman of eOriginal Inc. He is a member and former chairman of the US–Japan Business Council, chairman of The College Fund/UNCF, and chairman of the Policy Board of the Americans for the Arts. He also serves on the Boards of Aetna Inc. and Dell Computer Corporation. He retired as chairman and chief executive officer of the CBS Corporation in 1998 after having led one of the most comprehensive transformations of a major US corporation.

Sir Christopher Lewinton Age 69 Non executive-director
Sir Christopher Lewinton was appointed a director in September 2000 and has been a director of Young & Rubicam Inc. since May 1999. He was for 14 years chairman of TI Group plc, and remains a consultant to TI Group Automotive Systems. From 1970 to 1985 he was chief executive of the Wilkinson Sword Group and, in 1978, when Wilkinson Sword was acquired by Allegheny International, he joined the main board of the company and chaired Allegheny's international operations. He is a non-executive director of Videonet, a private company providing video-on-demand. He served as a non-executive director of Reed Elsevier from 1993 to 1999 and was a director of the Supervisory Board of Mannesman AG from 1995 to 1999.

Christopher Mackenzie Age 46 Non-executive director
Christopher Mackenzie was appointed a director in March 2000. He is president, chief executive and deputy chairman of TrizecHahn Corporation (TZH), one of North America's largest diversified property companies. He was previously a company officer of GE, leading GE Capital's international business development. He is a non-executive director of Global Switch, the London-based Technology Centre company, in which TZH is a controlling shareholder, as well as Fairchild Dornier GmbH, the aircraft manufacturer, and Champagne Jacquesson S.A.

Stanley Morten Age 57 Non-executive director
Stanley Morten was appointed a director in 1991. He is a private investor with a focus on companies in the genomics sector of the biotechnology industry, and is currently working with Pegasus Capital Advisors of Cos Cob, Connecticut, to raise a new venture capital fund called Auxyn Biosciences Ventures. Previously he was the chief operating officer of Punk, Ziegel & Co, a New York investment banking firm with a focus on the healthcare and technology industries. Before that he was the managing director of the equity division of Wertheim Schroder & Co, Inc in New York.

John Quelch Age 49 Non-executive director
John Quelch was appointed a director in 1987. He is Professor and Dean of the London Business School and was formerly the Sebastian S. Kresge Professor of Marketing at Harvard Business School. A prolific writer on marketing and public policy issues, he is the author of 12 books on marketing management. He is a non-executive director of Blue Circle Industries plc, easyJet plc and the Graduate Management Admission Council. He was a founding non-executive director of Reebok International Ltd.

Senior WPP executives and advisors to the Board

Parent company senior executives

Human resources
A Jackson
A Weinberg

Real estate
A M Burkitt
E Bauchner
J Murphy

Procurement
P E Williams
V Chimienti
P Gomes
K Liew
P Permanne

Information technology
D A S Nicoll
S O'Byrne
S Leitner
A Stebbings

Practice development and Knowledge Communities
E Salama
M Johnson
S Duke
M Pooler
D Herron

Branding & identity, Healthcare and Specialist communications services
J F Zweig
M E Howe
S Sampson

Financial control and management reporting
D Barker
N P Douglas
J Drefs
K Gill
C Sweetland
S Winters

International treasury
P Delaney
A Koh
J Forster

Internal audit
P Stanley

International tax
D M Roberts
T O Neuman
R Garry

Corporate development
A G B Scott
L A Mellman
A Newman
C Black

Communications and investor relations
P Richardson
F McEwan

Company secretarial and legal
M W Capes (Company secretary)
D F Calow
A J Harris

Merchant bankers

Dresdner Kleinwort Wasserstein
1301 Avenue of the Americas
New York
NY 10019

Goldman Sachs International Ltd
Peterborough Court
133 Fleet Street
London
EC4A 2BB

HSBC Investment Bank
10 Lower Thames Street
London
EC3R 6AE

Merrill Lynch International
20 Farringdon Road
London
EC1M 3NH

Legal advisers

Allen & Overy
One New Change
London
EC4M 9QQ

Davis & Gilbert
1740 Broadway
New York
NY 10019

Fried Frank
1 New York Plaza
New York
NY 10004

Hammond Suddards Edge
7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

MacFarlanes
10 Norwich Street
London
EC4A 1BD

Stockbrokers

Merrill Lynch International Corporate Broking
20 Farringdon Road
London
EC1M 3NH

West LB Panmure
New Broad Street House
35 New Broad Street
London
EC2M 1NH

Auditors and accountancy advisers

Andersen
1 Surrey Street
London
WC2R 2PS

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Executive remuneration consultants

Andersen
1 Surrey Street
London
WC2R 2PS

SCA Consulting
152 West 57th Street
New York
NY 10019

Property advisers

Fulcrum Corporate Real Estate
15-19 Great Titchfield Street
London
W1P 7FB

James Andrew International
72/75 Marylebone High Street
London
W1M 3AR

Knight Frank
Kings House
36 King Street
London
EC2V 8QQ

Directors’ responsibilities

Corporate governance provisions
The Board of Directors is accountable to the Company’s share owners for good corporate governance and this statement describes how the principles identified in the Combined Code are applied by the Company. The Board confirms that the Company has complied throughout the year with the provisions set out in Section 1 of the Combined Code, except that the service contracts in respect of the Group chief executive, Sir Martin Sorrell, and Michael Dolan, the chief executive of Young & Rubicam Inc., are each for periods in excess of one year for the reasons explained on page 94.

The Auditors’ report on this statement is included in their report to share owners, which appears on page 79.

Board of Directors
The Board of Directors is responsible for approving Group policy and strategy and is responsible to share owners for the Group’s financial and operational performance. Responsibility for the development and implementation of Group policy and strategy, and for day-to-day management issues is delegated by the full Board to the executive directors.

For the year under review Hamish Maxwell was the non-executive Chairman of the Board. Mr Maxwell retired in February 2001 and Philip Lader was appointed in his place as non-executive Chairman. Sir Martin Sorrell as the Group chief executive is responsible for the development and implementation of policy and strategy and for the day-to-day operations of the Group. The biographies of the Board members appear on pages 82 and 83.

The Company considers that its complement of non-executive directors provides an effective Board with a mix of industry-specific knowledge and broad global business and commercial experience. The balance enables the Board to provide clear and effective leadership of the Company and to bring informed and independent judgement to many aspects of the Company’s strategy and performance so as to ensure that the highest standards of conduct and integrity are maintained by the Company on a global basis.

All directors are kept fully informed of important developments in the various sectors in which the Group operates worldwide and they are also advised as necessary on regulatory and best practice requirements which affect the Group’s businesses particularly in the US and the UK.

The Board meets at least seven times a year, and more frequently when business needs require. One meeting is devoted entirely to the development of the Company’s strategy. The Board consists of eleven non-executive directors and five executive directors.

John Quelch is the senior independent non-executive director to be available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman or Group chief executive.

Whilst certain non-executive directors hold shares in the Company they will not participate in the Company’s share option or other incentive schemes. Messrs Lewinton, Hellman and Jordan participated in the Young & Rubicam Inc. Directors Stock Option and Deferred Fee Plans. Non-executive directors may receive a part of their fees in ordinary shares.

The Company’s Articles of Association provide that a director appointed since the last Annual General Meeting, or who has held office for more than 30 months since his election or re-election by the Company in general meeting (whether annual or extraordinary) shall retire from office but shall be eligible for re-election.

Messrs Dolan, Hellman and Jordan and Sir Christopher Lewinton were appointed at the Extraordinary General Meeting held in September 2000 and are not required to seek re-election this year. Philip Lader having been appointed a director since the last General Meeting, is required to retire from office at the forthcoming Annual General Meeting, but being eligible offers himself for re-election.

The Board has also decided that those directors who are aged 70 or over on the date of the Notice of Annual General Meeting, namely Messrs Bullmore, Jackson and Inagaki, will retire from office at the forthcoming Annual General Meeting, but being eligible, are all offering themselves for re-election. Further, in accordance with the Articles of Association, Mr Quelch also retires but being eligible offers himself for re-election.

The Board recommends share owners to vote in favour of the Resolutions to re-elect the directors to be proposed at the Annual General Meeting. Details of directors’ remuneration and service contracts are set out in the report of the Compensation committee on pages 92 to 99.

Board Committees
The Board has established an Audit committee, a Compensation committee and a Nominations committee.

The Audit committee meets at least three times a year and currently comprises the following non-executive directors: Messrs J B H Jackson (Chairman), J J D Bullmore and S W Morten. The director of internal audit and the Group finance director attend the meetings of the committee, as do the Company’s auditors and General Counsel. The Audit committee is responsible for overseeing the involvement of the Group’s auditors in the planning and review of the Group’s annual report and accounts and the half year report and also discussing with the auditors the findings of the audit. The independence and objectivity of the external auditors is also considered, and the committee reviews any recommendation relating to the reappointment of the auditors. The committee considers accounting and legal requirements as well as the regulations of the UK Listing Authority and the Securities Exchange Commission for proper compliance by the Company. The committee also promotes the maintenance of effective systems of internal financial control and is responsible for the scope of internal audit.

The Compensation committee reviews the remuneration policy of the Group including base remuneration, incentive plans and terms of employment of executive directors and senior executives of the Company, and directors and senior executives of operating companies. The committee approves and monitors all of the arrangements with the Group chief executive.

The committee comprises exclusively non-executive directors: Messrs S W Morten (Chairman), C Mackenzie and J A Quelch. Each non-executive director is independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgement.

The Compensation committee regularly consults with the Group chief executive and the Chief human resources officer on proposals relating to the remuneration of other executive directors and has access to professional advice inside and outside the Company, including independent executive remuneration consultants.

The Nominations committee considers appointments to the Board of Directors and makes recommendations in this respect to the Board. The committee comprises the following directors: Messrs P Lader, B J Brooks, S W Morten, J A Quelch and Sir Martin Sorrell.

Internal control
The Combined Code requires that companies review all internal controls including financial, operational and compliance controls and risk management. In September 1999, the Turnbull Report was published to offer guidance to directors in complying with the internal control requirements of the Combined Code. In the opinion of the Board, the Company has complied throughout the year with the guidance contained in the Turnbull Report.

The Board of Directors has overall responsibility for the system of internal control throughout the Group. In the context of the scope and complexity of this system, it can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company assesses the risks facing the business on an ongoing basis and has identified a number of key business risks,

Directors' responsibilities continued

which are subject to regular reporting to the Board. These include client management and operational performance, treasury matters (including management of working capital), management of staff, compensation of key executives, capital expenditure, IT and legal matters. Also included was the integration of the Young & Rubicam businesses into the Group.

In response to the guidance given by the Turnbull Report, the Company has implemented risk management procedures and has formalised documentation. These include the implementation of detailed risk analyses by the significant businesses in the Group, having regard to the potential financial and reputational impact of the risks and their likelihood. In the first instance, these detailed risks were determined in workshops held in 1999 for the senior management of each of the significant businesses.

During 2000, these risks and any new risks have been reviewed and updated. Further workshops have also been held at subsidiary and regional levels, as well as at the Young & Rubicam Group by the end of 2000.

At each Board meeting, the Group chief executive presents a 'Brand Check' review of each of the business' operations. This now formally incorporates 'Risk Monitor', being feedback of the business risks identified in the workshop process, as well as details of any change in the risk profile since the last Board Meeting.

Risk monitoring is, therefore, embedded in the operation of the Board, in a manner which in its opinion is the correct way to respond to the Turnbull recommendations. A formal update of the process is undertaken annually in conjunction with internal audit and the self-certification questionnaire, described below.

The key elements of the system of internal control which were followed are:

Financial reporting

The Group has a comprehensive system for reporting financial results to the Board. Each operating unit updates a three-year strategic plan annually which incorporates financial objectives. These are reviewed by the Group's management and are agreed with the chief executive of each operating unit. In addition, towards the end of each financial year, operating units prepare detailed budgets for the following year. The Group's budget is reviewed by the Board before being adopted formally. Operating units' results are reported monthly and compared to budget and prior year, with full-year forecasts prepared quarterly throughout the year. The Company reports to share owners four times a year.

Quality and integrity of personnel

Quality and integrity of personnel is regarded as vital to the maintenance of the Group's system of internal control. Guidance on identified key policies is provided in the WPP Policy Book, which is regularly reviewed and which includes a Code of Business Conduct setting out the principal obligations of directors and employees. Compliance with this Code of Conduct is required to be confirmed annually by all directors and senior executives in the Group.

Operating unit controls

Each operating unit completes an annual self-certification questionnaire confirming compliance with key financial controls and procedures. These questionnaires are reviewed by internal audit, the results are reported to the Audit committee and linked into the risk management procedures developed as a result of the Turnbull Report.

Review of risk areas

As referred to above, the Company assesses business risks on an ongoing basis. Each operating group has in place monthly and quarterly procedures, in addition to day-to-day management activities, to review their operations and business risks. These are formally communicated to the Group chief executive and, in turn to the Board. Regular review meetings are also held by the Group chief executive in respect of the key business risks that are monitored at Company level.

Monitoring of the system of internal control

The Board is responsible for reviewing the effectiveness of the system of internal control, which is made possible by the 'Brand Check' and 'Risk Monitor' presentations by the Group chief executive.

The effectiveness of the system of internal control is monitored on an ongoing basis by the Audit committee, which receives regular reports from the director of internal audit, and, where relevant, the external auditors.

Going concern

Under company law, the directors are required to consider whether it is appropriate to adopt the financial statements on the basis that the Company and the Group are going concerns. As part of its normal business practice the Group prepares annual and longer-term plans and in reviewing this information and in particular the 2001 three-year plan and budget the directors believe that the Company and the Group have adequate resources for the foreseeable future. Therefore the Company and the Group continue to adopt the going concern basis in preparing the financial statements.

Responsibilities in respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and Group at the end of each financial year and of the profit and loss of the Group for that year. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The directors confirm that the financial statements comply with the above requirements. The directors are also responsible for maintaining adequate accounting records to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Group, and therefore for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share owner relations

Relations with share owners including potential share owners and investment analysts are regarded by the Group as extremely important throughout the year.

The Group has a well-developed continuous program to address the needs of share owners, investment institutions and analysts for a regular flow of information about the Company, its strategy, performance and competitive position. Given the wide geographic distribution of the Group's current and potential share owners, this program includes regular visits to investors, particularly by the Group chief executive and the Group finance director, in the UK, Continental Europe and the major financial centres in North America together with a more limited program in Asia Pacific. As the US provides the single largest group of share owners, the Company provides a quarterly trading update at the end of the first and third quarters in addition to semi-annual reporting required in the UK. The Company also maintains a website providing investors with a regular source of information.

Directors' remuneration and interests

Directors' remuneration

The compensation of all executive directors is determined by the Compensation committee of the Board ('the Compensation committee') which is comprised wholly of independent non-executive directors. The Compensation committee is advised by independent executive remuneration consultants on all aspects of executive compensation as well as by the Chief human resources officer.

The compensation of the Chairman and other non-executive directors is determined by the Board, which is similarly advised by independent executive remuneration consultants and the Chief human resources officer.

The components of executive directors' remuneration and the basis on which these are established are described in the Report of the Compensation committee on pages 92 to 99.

Remuneration of the directors was as follows [7]:

				Short-term incentive plans			Long-term incentive plans		Pension contributions	
Chairmen	Location	Salary and fees £000	Other benefits £000	(annual bonus)[1] £000	2000 Total £000	1999 Total £000	2000[3] Total £000	1999[3] Total £000	2000 Total £000	1999 Total £000
H Maxwell [5]	USA	101	–	–	101	102	–	–	–	–
P Lader [5]	USA	–	–	–	–	–	–	–	–	–
Executive directors										
M S Sorrell [7]	UK	854	24	1,302	2,180[2]	1,324[2]	–	–	340	324
B J Brooks	USA	214	4	134	352	267	476	904	23	26
P W G Richardson	UK	250	22	156	428	349	461	2,844	25	21
E R Salama	UK	165	22	103	290	265	414	1,094	17	16
G C Sampson [5]	UK	34	7	–	41	82	–	17	–	–
M J Dolan [5] and [6]	USA	132	3	528	663	–	1,676	–	1	_
Non-executive directors [6]										
J J D Bullmore [4]	UK	72	12	–	84	82	–	–	–	–
E Dyson	USA	35	–	–	35	13	–	–	–	–
F W Hellman [5]	USA	7	–	–	7	–	–	–	–	–
M Inagaki	Japan	–	–	–	–	–	–	–	–	–
J B H Jackson	UK	30	–	–	30	25	–	–	–	–
M H Jordan [5]	USA	7	–	–	7	–	–	–	–	–
C Mackenzie	UK	20	–	–	20	–	–	–	–	–
C Lewinton [5]	USA	6	–	–	6	–	–	–	–	–
S W Morten	USA	33	–	–	33	29	–	–	–	–
J A Quelch	UK	28	40	–	68	55	–	–	–	–
J Smilow [5]	USA	20	–	–	20	25	–	–	–	–
Total remuneration		**2,008**	**134**	**2,223**	**4,365**	**2,618**	**3,027**	**4,859**	**406**	**387**

Notes

1 Amounts included in short-term incentive plans represent bonuses in respect of 2000 performance, paid in 2001.

2 The amount of salary and fees comprises the fees payable under the UK Agreement with JMS Financial Services Limited ('JMS') and the salary payable under the US Agreement referred to on pages 94 and 95. Until 2000, as in previous years, JMS discharged all relevant UK national insurance costs attributable to the provision of the services of Sir Martin Sorrell under the UK Agreement. With effect from July 2000 the Company has agreed to reimburse to JMS any additional employer national insurance costs arising as a result of schedule 12 to the Finance Act 2000 attributable to the difference between the amount payable to JMS under the UK agreement and the salary payable by JMS to Sir Martin Sorrell.

3 These amounts represent gains realised on the exercise of share options and, where relevant, payments under the Performance Share Plan.

4 J J D Bullmore has a consulting arrangement with the Company in addition to his fee as a non-executive director.

5 H Maxwell retired and P Lader was appointed in February 2001. C Mackenzie was appointed in March 2000, G C Sampson retired in May 2000 and M J Dolan, F W Hellman, M H Jordan and Sir Christopher Lewinton were all appointed in September 2000. J Smilow retired in September 2000.

6 Full particulars of Mr Dolan's arrangements are set out on pages 95 and 96.

7 All amounts payable in US dollars have been converted into £ sterling at $1.5162 to £1. The amounts paid to Sir Martin Sorrell were paid in part in US dollars and part in £ sterling.

Directors' interests

Ordinary shares

Directors' interests in the Company's share capital, all of which were beneficial, were as follows [3], [5], [6]:

	At 1 Jan 2000 or date of appointment if later	Shares acquired through long-term incentive plan awards in 2000[1]		Other interests as at 31 Dec 2000 inc. shares purchased in 2000	At 31 Dec 2000[1]	Shares acquired through long-term incentive plan awards in 2001		Other interests acquired (disposed of) since 31 Dec 2000	At 4 May 2001
		Vested	(sold)			Vested	(sold)[1]		
B J Brooks	346,788	48,535	(33,540)	–	361,783	57,042	(28,527)	–	390,298
J J D Bullmore	20,065	–	–	–	20,065	–	–	–	20,065
M J Dolan [2][7][11]	3,613,645	–	–	(71,100)[10]	3,542,545	–	–	417,500[12]	3,960,045
E Dyson	–	–	–	–	–	–	–	5,000	5,000
F W Hellman [2][7]	1,193,665[9]	–	–	8,380[10]	1,202,045	–	–	–	1,202,045
M Inagaki [4]	–	–	–	–	–	–	–	–	–
J B H Jackson	12,500	–	–	–	12,500	–	–	–	12,500
M H Jordan [2][7]	16,695[9]	–	–	3,490[10]	20,185	–	–	–	20,185
P Lader [8]	–	–	–	–	–	–	–	–	–
C Lewinton [2][7]	8,350[9]	–	–	13,395[10]	21,745	–	–	–	21,745
C Mackenzie	–	–	–	10,000	10,000	–	–	–	10,000
H Maxwell	35,000	–	–	–	35,000	–	–	–	35,000
S W Morten	20,000	–	–	–	20,000	–	–	–	20,000
J A Quelch	10,000	–	–	2,000	12,000	–	–	–	12,000
P W G Richardson	331,176	44,047	(44,047)	19,567	350,743	55,179	(22,073)	–	383,849
E R Salama	409,177	40,291	(19,892)	–	429,576	49,584	(35,706)	–	443,454
G C Sampson [8]	554,313	–	–	–	–	–	–	–	–
J E Smilow [8]	100,000	–	–	–	–	–	–	–	–
M S Sorrell [2]	13,293,414	–	–	93,540	13,386,954	–	–	–	13,386,954

Notes

1 Further details of long-term incentive plans are given in the notes on page 89.

2 Interests include unexercised options. In the case of Sir Martin Sorrell interests include 1,571,190 and 577,391 unexercised phantom options granted in 1993 and 1994 respectively as referred to below and on page 94, 4,691,392 shares in respect of the Capital Investment Plan and 1,754,520 shares in respect of the Notional Share Award Plan.

3 Each of the executive directors has a technical interest as an employee and potential beneficiary in one of the Company's ESOPs in shares in the Company held under the relevant ESOP. At 31 December 2000, the Company's ESOPs held in total 36,208,185 shares in the Company, (1999: 27,889,000 shares).

4 M Inagaki is a director and chairman of Asatsu-DK, which at 10 May 2000 was interested in 31,295,646 shares representing 2.60% of the issued share capital of the Company.

5 Save as disclosed above and in the report of the Compensation committee, no director had any interest in any contract of significance with the Group during the year.

6 The above Interests do not include the Interests of the executive directors in the Performance Share Plan but include shares held by them and committed to the Leadership Equity Acquisition Plan (LEAP) referred to on pages 93 and 94, although they do not include any matching shares which may vest under LEAP.

7 Appointed in September 2000. Shares were acquired in ADS form following the completion of the merger between the Company and Young & Rubicam Inc., in accordance with the terms of the merger agreement and include the interests of Messrs Dolan, Hellman, Jordan and Lewinton under Young & Rubicam incentive plans.

8 G C Sampson retired in May 2000, J E Smilow in September 2000 and P Lader was appointed in February 2001.

9 Includes shares made available as a result of the Young & Rubicam Inc. Directors Stock Option Plan.

10 Includes shares made available as a result of the Young & Rubicam Inc. Directors Deferred Fee Plan.

11 Includes shares made available as a result of the Young & Rubicam Inc. Restricted Stock and Incentive Compensation Plans.

12 Represents shares made available as a result of the Young & Rubicam Inc. Incentive Compensation Plan. A further 417,500 options vest under this Plan in April 2002.

Share Options

Other than as referred to in the notes above and also below, no director has been granted options over ordinary shares or ADSs in 2000 and as at 4 May 2001 no director had any options outstanding and unexercised.

2,196,190 phantom options were granted to JMS in relation to 1993 at a base price of 52.5p per share, exercisable between April 1996 and April 2003 and 577,391 in relation to 1994 at a base price of 115p per share, exercisable in March 2004. In 1997, JMS exercised 625,000 phantom options granted in relation to 1993. This leaves 1,571,190 unexercised phantom options granted in relation to 1993. JMS has indicated that it does not intend to exercise the 1993 phantom options until March 2003, subject to good leaver and change of control provisions.

Under the terms of Michael Dolan's service contract, details of which are set out on pages 95 and 96, Mr Dolan is entitled to receive in September 2001, a grant of options to acquire WPP ADSs under the terms of the WPP Executive Share Option Plan having an aggregate fair market value equal to his base salary at that time.

Other long-term incentive plan awards[1]

Long-term incentive plan awards granted to directors are as follows:

	Plan[1]	At 1 Jan 2000 Number	Granted/ (lapsed) 2000[4] Number	Vested 2000 Number	At 31 Dec 2000 Number	Granted/ (lapsed) 2001[4] Number	Vested 2001 Number	At 4 May 2001 Number	Performance period	Price per share of vested units on valuation date[2]
B J Brooks	PSP	36,967	122	(18,544)	18,545	83	(18,628)	–	1 Jan 1996 – 31 Dec 1998	365.8p
	PSP	60,864	(883)	(29,991)	29,990	110	(15,050)	15,050	1 Jan 1997 – 31 Dec 1999	981.0p
	PSP	46,728	–	–	46,728	–	(23,364)	23,364	1 Jan 1998 – 31 Dec 2000	872.0p
	PSP	50,623	–	–	50,623	–	–	50,623	1 Jan 1999 – 31 Dec 2001	n/a
	PSP	–	32,185	–	32,185	–	–	32,185	1 Jan 2000 – 31 Dec 2002	n/a
	LEAP	272,600	–	–	272,600	–	–	272,600	1 Jan 1999 – 31 Dec 2003	n/a
M J Dolan[5]	LTIP Units	–	–	–	–	5,000	–	5,000	1 Jan 2001 – 31 Dec 2003	n/a
	LEAP	–	1,288,000	–	1,288,000	–	–	1,288,000	1 Jan 1999 – 31 Dec 2003	n/a
P W G Richardson	PSP	21,086	68	(10,577)	10,577	49	(10,626)	–	1 Jan 1996 – 31 Dec 1998	365.8p
	PSP	67,925	(985)	(33,470)	33,470	122	(16,796)	16,796	1 Jan 1997 – 31 Dec 1999	981.0p
	PSP	55,513	–	–	55,513	–	(27,757)	27,756	1 Jan 1998 – 31 Dec 2000	872.0p
	PSP	65,944	–	–	65,944	–	–	65,944	1 Jan 1999 – 31 Dec 2001	n/a
	PSP	–	36,765	–	36,765	–	–	36,765	1 Jan 2000 – 31 Dec 2002	n/a
	LEAP	299,030	179,418	–	478,448	–	–	478,448	1 Jan 1999 – 31 Dec 2003	n/a
E R Salama	PSP	24,719	80	(12,399)	12,400	56	(12,456)	–	1 Jan 1996 – 31 Dec 1998	365.8p
	PSP	56,604	(820)	(27,892)	27,892	102	(13,997)	13,997	1 Jan 1997 – 31 Dec 1999	981.0p
	PSP	46,261	–	–	46,261	–	(23,131)	23,130	1 Jan 1998 – 31 Dec 2000	872.0p
	PSP	48,359	–	–	48,359	–	–	48,359	1 Jan 1999 – 31 Dec 2001	n/a
	PSP	–	26,961	–	26,961	–	–	26,961	1 Jan 2000 – 31 Dec 2002	n/a
	LEAP	272,645	–	–	272,645	–	–	272,645	1 Jan 1999 – 31 Dec 2003	n/a
M S Sorrell[3]	–	8,594,493	–	–	8,594,493	–	–	8,594,493	n/a	n/a
	PSP	219,812	–	–	219,812	–	–	219,812	1 Jan 1999 – 31 Dec 2001	n/a
	PSP	137,255	–	–	137,255	–	–	137,255	1 Jan 2000 – 31 Dec 2002	n/a
	LEAP	5,369,070	–	–	5,369,070	–	–	5,369,070	1 Jan 1999 – 31 Dec 2003	n/a

Notes

1 The long-term incentive plans operated by the Company consist of the Performance Share Plan (PSP) and the Leadership Equity Acquisition Plan (LEAP). Details of the PSP and LEAP can be found on pages 93 and 94. The number of shares shown for LEAP represents the maximum number of Matching Shares which is capable of vesting at the end of the performance period, if the performance requirement is satisfied to the fullest extent and subject to the retention of WPP investment shares until the end of the relevant investment period in September 2004. The number of Sir Martin Sorrell's Matching Shares includes those attributable to JMS. The 8,594,493 shares referred to in note 3 are not awarded under either the PSP or LEAP. Mr Dolan participates in the Young & Rubican long-term incentive plan, referred to on page 88.

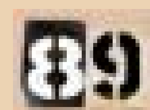
2 Valuation date is 31 December at the end of the relevant performance period.

3 The 8,594,493 shares represent the number of shares, or cash equivalent of shares which vest, under the Capital Investment Plan (CIP) the Notional Share Award Plan (NSAP) and phantom options. Details of the first two plans are set out on page 95 and of the phantom options on page 94. The performance conditions were satisfied under the CIP and NSAP before these plans were due to mature in September 1999. Each plan has been extended until September 2004, subject to good leaver, change of control and other specified provisions, when the awards vest. Consequently their value cannot be established until that time.

Under arrangements made with Sir Martin Sorrell relating to the payment on his behalf of US withholding tax under the CIP and pension payments made under the US Agreement, WPP Group USA Inc. has made payments of which the maximum amount outstanding during the year was £480,000 and which remained outstanding at 31 December 2000.

4 Includes dividends received in respect of vested restricted stock which have been reinvested in the acquisition of further ordinary shares.

5 Represents LTIP units, rather than shares, under the long-term incentive plan, referred to on page 95.



Other statutory information

The following information, together with the directors' responsibilities and statement of going concern, set out on page 86, the charitable donations made during the year set out on page 91 and the directors' remuneration and interests set out on pages 87 to 89 constitutes the Directors' Report.

Re-election of directors
Details of the directors who, whether under the Articles of Association of the Company or otherwise, are to retire and who offer themselves for re-election are set out in the Notice of Annual General Meeting.

Substantial share ownership
As at 24 April 2001, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

Putnam Investment Management	5.2%
Legg Mason	3.5%
WPP/ESOP	3.4%

The disclosed interests of all of the above refer to the respective combined holdings of those entities and to interests associated with them.

The Company has not been notified of any other holdings of ordinary share capital of 3% or more.

Profits and dividends
The profit on ordinary activities before tax for the year was £365.7 million (1999: £255.4 million). The directors recommend a final ordinary dividend of 2.55p (1999: 2.1p) per share to be paid on 9 July 2001 to share owners on the register at 8 June 2001 which, together with the interim ordinary dividend of 1.2p (1999: 1.0p) per share paid on 20 November 2000, makes a total of 3.75p for the year (1999: 3.1p). The retained profit for the year of £206.9 million is carried to reserves.

Group activities
The principal activity of the Group continues to be the provision of communications services worldwide. The Company acts only as a parent company and does not trade.

Fixed assets
The consolidated balance sheet includes a conservative estimate of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 13 and 14.

Share capital
Details of share capital movements are given in note 23 on pages 68 and 69.

Authority for purchase of own shares
At the Annual General Meeting in 2000 share owners passed a special resolution authorising the Company, in accordance with its articles of association, to purchase up to 77.5 million of its own shares in the market. In the year under review, 9.4 million shares were purchased at an average price of £8.87p per share.

Supplier payment policy
As the Company is a parent company, it has no trade creditors and accordingly no disclosure can be made of the year-end creditor days. However, the Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The average trade creditors for the Group, expressed as a number of days, were 47 (1999: 45).

Economic and monetary union in Europe – ('EMU')
The Group's European companies, including those in the UK, continue to prepare for the introduction of the euro, which will be the sole functional currency of participating countries in 2002.

The Group does not expect a material effect on trading performance from the introduction of the euro, but continues to analyse the potential impact.

The Group's information systems are being updated, with costs being expensed as incurred. Costs are not expected to be significant and conversions are benefiting from the successful introduction of the euro as the functional currency in the Group's operating companies in Belgium on 1 January 1999.

The Group does not anticipate changing its reporting currency to the euro until the UK decides to join EMU. For information purposes, however, the Group's profit and loss account and balance sheet are shown in euros on pages 76 and 77.

Auditors
The directors will propose a resolution at the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By Order of the Board
M W Capes
Secretary
4 May 2001

Corporate citizenship

WPP is playing an active part in developing corporate and social responsibility policies and standards that are relevant to the communications services industry. Until robust criteria are defined, we report below on our specific policies and initiatives.

Environmental policy
As a mainly service-based company our impact on the environment is small, but the Group recognises that the pursuit of economic growth and a healthy environment are inextricably linked. WPP, as a parent company to our operating companies, upholds the principle of 'subsidiarity' and charges our companies to adhere to best practice. In our worldwide operations we endeavour to adopt good environmental practice in respect of premises, equipment and consumption of resources. Environmental problems within the Group are reportable to the Audit Committee.

Support for the arts
WPP recognises that close connections with the arts world is a vital and liberating experience for individuals, not least for those whose business hinges on management of the imagination. We therefore encourage and foster mutually beneficial partnerships between our operating companies and arts and creative organisations. Many WPP employees are active in their own arts communities, giving time and marketing counsel to a variety of arts-based organisations and activities around the world.

WPP is a corporate patron of the National Portrait Gallery in London and is a founder member of the innovative Creative Forum for Culture and the Economy, a 'think and action tank' founded by UK industry body Arts & Business for business leaders dedicated to developing dynamic relationships between business and the arts.

WPP is a co-sponsor of the *Japan 2001* initiative, a year-long program of UK events celebrating Japanese culture and technology.

Education and training
As part of WPP's strategy of supporting young people through education and training, the Group is active in a number of areas. WPP sponsors London's first Arts College for the Media Arts: Charles Edward Brooke, a state secondary school for girls from multi-ethnic backgrounds. This government-backed initiative aims to equip young people with the skills needed to succeed in business and to make learning more relevant to the needs of future employees. For the past seven years, WPP has sponsored young South Africans, enabling them to attend Cape Town's career developing Red & Yellow School of Logic and Magic for aspiring designers and copywriters.

WPP also supports the development of international business schools. Our Group chief executive, Sir Martin Sorrell, is a Governor of the London Business School, an Advisory Board member of the Judge Institute of Management Studies at Cambridge, a member of the Board of Directors of Associates at the Harvard Business School and the Dean's Advisory Council at Boston University. WPP is an active supporter of the Indian Business School, which will receive its first post-graduate students in July 2001.

Community partnerships
Much of the strength of the Group springs from its significant local presence around the world. And so by far the largest component of our support for charities and local communities is determined and contributed by our operating companies at local level.

At the parent company level, WPP supports a number of community programs including the Drugs Prevention Board, instituted by the Home Office of the UK Government. WPP is a founder member of the RSA's initiative, *Centre for Tomorrow's Company*, which advances best competitive – and ethical – business practice. As a Corporate Partner of The Media Trust – the media industry's charity which matches the skills and resources of media professionals to the communications needs of charities and community organisations – WPP supports partnerships between the media and charities across the UK.

WPP's operating companies are responsible for their own charitable policies which enables them to support local projects and organisations according to circumstances and employee views. Many of our operating companies, such as our advertising agencies and public relations consultancies, have highly developed programmes of charitable and pro bono activity involving their people at corporate and individual levels. They contribute to their communities and selected charities in imaginative ways: from city clean-up operations to away days with disadvantaged young people to taking roles as school governors.

The following activities of just two of WPP's major operating companies are an indication of the range of community involvement initiated by our people.

Ogilvy & Mather's pro bono work includes WWF and Childline in South Africa, UNICEF in France, The Red Cross in Greece, Mexico and Portugal, the African Medical Research Foundation in Italy, the National Parks Fund in Russia and Terre des Hommes in Spain. Ogilvy & Mather also supports charities around the world, including an orphanage in Poland, the Children's Wish Foundation and NCH in the UK, The Welcome Home Fund and Children's Hour in Ireland, Médecins Sans Frontières in France, The Concern India Foundation in India, child charities in Brazil and numerous arts and education charities in the US.

J. Walter Thompson Company has for many years undertaken pro bono work around the world. Current activity includes an AIDS prevention charity in São Paulo, Partnership for a Drug Free America in Chicago, the Special Olympics and National Youth Theatre in London, Children Now and Campaign for America's Children in New York, UNICEF in Peru and a third-world debt charity in Rome.

Charitable donations
WPP, the parent company, continues to concentrate its charitable giving in the areas of education and training of young people, with particular emphasis on those who are disadvantaged. Besides financial support, WPP encourages charitable support in kind through its operating companies providing assistance, for instance, implementing identity, public relations and advertising programmes or other marketing campaigns.

The parent company made charitable donations of £191,000 in 2000 (1999: £159,036).

It is not the Group's policy to make payments for political purposes.

Compensation committee report

This report is made by the Board. It sets out the Company's statement of how it has applied the principles of good governance set out in the Combined Code and explains any areas of non-compliance. As in previous years, additional information on executive remuneration similar to a US proxy disclosure is also included in this report.

The Compensation committee has followed the requirements set out in Schedule A of the Combined Code, when determining the remuneration packages of executive directors and has followed the provisions of Schedule B of the Combined Code when preparing the Compensation committee report.

The Report of the Auditors on the financial statements set out on page 79 confirms that the scope of their report covers the disclosures contained in or referred to in this report that are specified for their examination by the UK Listing Authority.

Details of each individual director's remuneration and of their beneficial holdings of the Company's shares and share options are set out on pages 87 to 89.

Scope of the Compensation committee

During the year, the Compensation committee was comprised exclusively of independent non-executive directors, namely:

– S W Morten (Chairman of the committee);
– H Maxwell (retired February 2001);
– J A Quelch; and
– C Mackenzie (appointed February 2001).

No member of the committee has any personal financial interest, other than as share owners, in the matters to be decided by the committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the Group's businesses.

The Compensation committee, which seeks the advice of independent remuneration consultants, is responsible for establishing and overseeing the implementation of remuneration policy for the Group, with specific reference to the following:

– assessment of competitive practices and determination of competitive positioning;
– base salary levels;
– annual and long-term incentive awards;
– policy and grants relating to WPP share ownership (in this report referred to as 'WPP stock'); and
– pensions and executive benefits.

The Compensation committee determines awards under annual and long-term incentive plans and awards of WPP stock under a number of plans for Group employees who are paid a base salary of $150,000 or more.

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on pages 94 and 95, on the basis of a comparison with the chief executives of other global, multi-agency communications companies, including the Omnicom Group (Omnicom) and The Interpublic Group (IPG). The remuneration, stock incentive arrangements and benefits of the other executive directors (other than Michael Dolan for the year under review), are based on comparable positions in multinational companies of a similar size and complexity. The criteria established for each element of total remuneration are set out on the following pages. The remuneration, stock incentive arrangements and benefits of Michael Dolan, whose service contract was entered into at the same time as the merger agreement with Young & Rubicam Inc., are set out on pages 95 and 96.

Remuneration policy

The remuneration of executive directors and senior executives of the Group's operating companies and the parent company is reviewed each year by the committee.

The Company's remuneration policy is designed to ensure that the Group can attract, retain and motivate the best available talent, so that we can meet our client and share owner objectives. To achieve this, executive remuneration is designed on the following principles:

– total remuneration opportunities are designed to be fully competitive in the relevant market;
– all remuneration packages have a very significant performance-related element;
– incentives are based on meeting specific, measureable performance objectives, and align executive rewards with creating value for our share owners;
– the total remuneration programme includes significant opportunities to acquire WPP stock, consistent with the Group strategy of building a strong ownership culture.

Elements of executive remuneration

The following comprised the principal elements of executive remuneration for the period under review:

– Base salaries;
– Annual incentives;
– Long-term incentives, including stock ownership and LEAP; and
– Pension, life assurance, health and disability benefits.

Base salary levels are established by reference to the market median for similar positions in directly comparable businesses and by comprehensive market survey information. In the case of the parent company, this includes other global services companies such as IPG and Omnicom and, for J. Walter Thompson Company, Ogilvy & Mather Worldwide and Young & Rubicam Inc., the competitive market includes other major multinational advertising agencies. For each of the other operating companies in the Group, a comparable definition of business competitors is used to establish competitive median salaries. Individual salary levels are set within a range of 15% above or below the competitive median, taking a number of relevant factors into account, including individual and business unit performance, level of experience, scope of responsibility and the competitiveness of total remuneration.

Salary levels for executives are reviewed every 18, 24 or 36 months, depending on the level of base salary. Executive salary adjustments are made on the recommendation of the Group chief executive for operating company chief executives and parent company executive directors and by the chief executive officer of each operating company for all other executives.

Annual incentives are paid under plans established for each operating company and for executives of the parent company. In the case of the Group chief executive and other parent company directors (other than Michael Dolan) and executives, the total amount of annual incentive payable is based on the achievement of Group operating profit or operating cash flow targets as well as the achievement of Group operating profit margin targets. The Group chief executive is subject to additional targets. These are established by the Group chief executive and approved by the Compensation committee. In the case of each operating company, operating profit and operating profit margin targets are agreed each year.

Within the limits of available annual incentive funds, individual awards are paid on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria, including:

– operating profit;
– profit margin;
– staff costs to revenue or gross margin;
– revenue or gross margin growth and conversion;
– level of co-operation among operating companies; and
– other key strategic goals, established annually.

In each case, the annual incentive objectives relate to the participant's own operating company, division, client or functional responsibility.

Each executive's annual incentive opportunity is defined at a 'target' level for the full achievement of objectives. Higher awards may be paid for outstanding performance in excess of target. With effect from 1 January 2000 the target level for the Group chief executive is 100% of base fees/salary and the maximum level is 200%. In respect of Mr Dolan for the year under review his bonus will be not less than $800,000 and for future years will be not less than $600,000 with a maximum of 200% of base salary. A one-time stay bonus of $800,000 is also payable to Mr Dolan in October 2001 so long as he is then an employee of Young & Rubicam Inc. For other Group executive directors the target commencing 1 January 2000 is 50% of base salary and the maximum is 75%.

Long-term incentives, including option grants, comprise a significant element of total remuneration for senior executives in the parent company and each operating company. During 2000, Group-wide, approximately 1,100 of those executives participated in a long-term incentive plan.

The committee regularly reviews the operation of the Group's long-term incentive programmes to ensure that the performance measures and levels of reward are appropriate and competitive.

Parent company

Annual grants of WPP performance shares are made to all executive directors. For awards currently outstanding, the value of each performance share is equivalent to one WPP share and the number of shares vesting over each three-year performance period is dependent on the growth of WPP's total share owner return relative to the growth of total share owner return of major publicly traded marketing services companies. Where the Group's total share owner return is below the median level of the peer group, none of the performance shares vest. Currently, at median performance, 50% of the performance shares vest, with higher percentages vesting for superior performance up to 100% if WPP ranks at least equal to the second ranking peer company.

Over the 1998-2000 performance period, WPP's performance ranked second among the peer group companies. Contingent grants of performance shares for the 1999-2001, 2000-2002 and 2001-2003 periods range from 25% to 100% of base salary.

Operating companies

Senior executives of most Group operating companies participate in long-term incentive plans, which provide awards in cash and restricted WPP stock for the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis with awards paid in March 2001 under the 1998-2000 long-term incentive plans. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in the following performance measures:

– average operating profit or operating cash flow; and
– average operating margin.

The stock portion of each payment is 50%. Restrictions on the sale of this stock are lifted after one year in respect of 50% of the stock and after two years for the balance, if the executive remains employed in the Group.

In addition, some executives also receive annual grants of WPP stock options through their membership of the WPP Group 'Leaders' or 'Partners' or 'High Potential Group'. These programs recognise a participant's contribution to the achievement of WPP's strategic aims, including business co-operation across operating companies. All members of the WPP Leaders, Partners and High Potential Groups, including the chief executive officer of each operating company (including Michael Dolan for the current financial year), receive an annual grant of fair market value WPP stock options, which are exercisable three years from the grant date assuming that specific performance conditions are met. Each year the grant value (number of shares times fair market value at the grant date) of these awards ranges from approximately 15% to 150% of base salary.

Client Equity Investment Funds

To address increasing competition for talent from new sources, as well as the growth of client revenues from internet companies, the Company has established a fund for each major operating group through which investments can be made in the stock of pre-IPO clients. These investments are limited to a specified portion of the fee income derived from each client, and there is an overall limit on the level of client equity investments by each operating group. These client equity investments will generally be sold as soon as possible following a public offering. Positive returns realised on client equity investments will then be used to acquire WPP shares, which will be allocated to employees in the operating companies. The WPP shares will vest in two equal instalments over a two-year period. Since its introduction last year, only three investments have been made under this fund.

Leadership Equity Acquisition Plan ('LEAP')

In September 1999 share owners approved the introduction of LEAP to reward superior performance relative to WPP's peer companies, so as to create strong shared interests with share owners through significant personal investment and ownership in stock by executives and to ensure competitive total rewards in the appropriate marketplace.

Under LEAP, participants must commit WPP shares ('WPP shares'), valued at not less than their annual earnings, at the time of acquisition, of which no more than two-thirds may be satisfied by a participant's existing holding of WPP shares, in order to provide an opportunity to earn additional WPP shares ('matching shares'). These investment shares must be committed for a five-year period ('investment period'). The number of matching shares which a participant may receive at the end of the investment period will depend on the performance of the Company measured over five financial years commencing with the financial year in which the WPP shares are committed. The number of matching shares will depend on the total shareowner return achieved by the Company relative to major publicly traded marketing services companies. The maximum number of matching shares, other than in respect of the seven participants, including Mr Dolan, who are executives of Young & Rubicam Inc., is five for every investment share, for which the Company must rank first or second over the performance period. If the Company's performance is below the median of the comparator group only half a matching share will vest for every WPP share held throughout the investment period. Following the merger with Young

& Rubicam Inc., seven executives of Young & Rubicam Inc., including Mr Dolan, have accepted invitations to participate in LEAP and their entitlement to matching shares in WPP has been pro-rated so that they are entitled only to four-fifths of the number of matching shares to which the executives of WPP became entitled as a result of their acceptance of invitations to participate made to them in September 1999. Consequently the maximum number of matching shares to which the seven executives of Young & Rubicam Inc. may become entitled to is four as opposed to five.

On a change of control, matching shares may be received based on the Company's performance to that date. The Compensation committee will also consider, in the light of exceptional financial circumstances during the performance period, whether the recorded TSR (Total Shareowner Return) is consistent with the achievement of commensurate underlying performance.

Executive directors of the Company and senior executives from several Group operating companies participate in LEAP. To date, awards have been made to 22 directors and executives. Sir Martin Sorrell, the Group chief executive has, together with JMS, committed to LEAP shares worth $10 million calculated at a price of £5.685 per share of which shares worth $3 million were purchased in the market after 16 August 1999.

It is expected that the matching shares to which participants, (other than JMS) become entitled for the awards made by reference to 1999 and 2000 will be provided from one of the Company's employee share ownership plans ('ESOPs'). The ESOPs have acquired the maximum potential number of matching shares in respect of awards made in or by reference to 1999 at an average cost not exceeding £3.70 per share. Authority has been obtained from share owners to satisfy the entitlement of JMS to matching shares by an allotment of new shares.

Executive Stock Ownership Policy

During 1996, the Company introduced stock ownership goals for the most senior executives in the Group. These range from 50% to 400% of salary. Beginning in 2000, stock option grants may vary depending on whether an individual achieves and maintains specified levels of WPP stock ownership.

Executive Stock Option Plan and Worldwide Ownership Plan

The 1996 Executive Stock Option Plan has been used annually since its adoption to make option grants to members of the WPP Leaders, Partners and High Potential Groups including key employees of the parent company, but excluding parent company executive directors and the Group chief executive. Under the terms of his service contract Mr Dolan will be entitled to receive a grant under this plan in September 2001 as referred to on page 95.

In 1997 the Company broadened stock option participation by introducing the Worldwide Ownership Plan for all employees of 100%-owned Group companies with at least two years' service, in order to develop a stronger ownership culture and greater knowledge of Group resources. Since its adoption grants have been made annually under this plan also and as at 4 May 2001 options under this plan had been granted to more than 18,000 employees for in excess of 9.1 million ordinary shares of the Company. Grants made under this plan to approximately 5,200 employees in 1998 became exercisable in March 2001.

Retirement benefits

The form and level of Company-sponsored retirement programs varies depending on historical practices and local market considerations. The level of retirement benefits is regularly considered when reviewing executive remuneration levels.

In the two markets where the Group employs the largest number of people, the US and UK, pension provision generally takes the form of defined contribution benefits, although the Group still maintains three defined benefit plans in the US, and three defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of employees in specific operating companies and, in the case of the UK plans, are closed to new entrants. All pension coverage for the parent company's executive directors is on a defined contribution basis and only base salary is pensionable under any Company retirement plan. Details of pension contributions for the period under review in respect of parent company executive directors are set out on page 87.

Directors' service contracts and notice periods

Except for Sir Martin Sorrell and Michael Dolan, each of the parent company executive directors is employed under a contract under which the director must give the Company 12 months' notice and the Company must give the executive 12 months' notice. Mr B J Brooks is employed under a service contract dated 1 June 1993, Mr P W G Richardson is employed under a service contract dated 8 January 1997 and Mr E R Salama is employed under a service contract dated 1 April 1997.

There are no change of control provisions in the contracts for executive directors, other than in respect of the Group chief executive.

The Board unanimously consider that, given the special position of the Group chief executive and the personal investment commitment made by him in the Company, there are special circumstances for the notice period applicable to him, which is for a fixed term of three years from 1 September 2000 renewable on or before 1 September each year. The Company anticipates that the current term will be renewed in September 2001 on this basis.

The Board also unanimously consider, that in order to retain the services of Michael Dolan and in the special circumstances which applied to him at the time of the merger with Young & Rubicam Inc., it was necessary to depart from its normal policy on directors' contracts and enter into a service contract with him for an initial term of four years with a provision for a one year extension.

The Group chief executive: Sir Martin Sorrell

Sir Martin Sorrell's services to the Group outside the USA are provided by JMS and he is directly employed by WPP Group USA, Inc. for his activities in the USA. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with the Group chief executive directly ('the US Agreement') provide for the following remuneration all of which is disclosed on pages 87 to 89:

- annual salary and fees of £840,000;
- annual pension contributions of £336,000;
- short-term incentive (annual bonus) of 100% of annual salary and fees at target and up to 200% maximum;
- the Leadership Equity Acquisition Plan; and
- the Performance Share Plan.

In addition JMS is entitled to phantom options linked to the WPP share price, granted in 1993 and 1994 as disclosed on page 88. No further phantom options have been or will be granted to JMS or to Sir Martin Sorrell.

JMS has stated its intention not to exercise the phantom options in respect of 1993 until March 2003 and has agreed to defer its interest in the phantom options in respect of 1994 until March 2004.

Following the enactment of the personal service company legislation in the Finance Act 2000, the Company has agreed to

reimburse JMS with the additional employer National Insurance contribution liability which JMS incurs because of the personal service company legislation on the basis that 63% of the annual fee, onus and pension contribution is drawn by Sir Martin Sorrell from JMS.

Pursuant to the authority conferred on the directors at the Company's annual general meeting in 2000, the Company and JMS have entered into a contract to satisfy JMS' entitlements under LEAP and the phantom options, by the allotment of new shares in the Company.

Both the UK Agreement and the US Agreement may be terminated within a period of 90 days on a change of control. In these agreements 'change of control' is as defined respectively in section 416 of the Income and Corporation Taxes Act 1988 and the Securities Exchange Act 1934.

On a termination of the Group chief executive and JMS, WPP is obliged to pay an amount equal to twice the annual salary and fee; bonus and pension payments payable under the UK and US Agreements; and also to continue certain benefits such as health insurance under the US Agreement.

Sir Martin Sorrell has also entered into covenants, which apply for the period of 12 months following termination of the UK Agreement and the US Agreement ('Termination'), under which he has agreed not to compete with any business carried on by the Company or any member of the WPP Group in any country in which the business of the Company or any member of the WPP Group is carried on at the date of Termination, nor to solicit certain business or custom or services from major clients or clients with which Sir Martin Sorrell was involved in the 12 months before Termination. The covenants also include an obligation not to induce suppliers with whom he was actively involved during the 12 months ending on Termination, nor to induce employees with whom he had material dealings in connection with the provision of services during the 12 months ending on Termination to cease relationship or employment with the Company or any member of the WPP Group.

The Capital Investment Plan (CIP) and Notional Share Award Plan (NSAP)

The CIP provides the Group chief executive with a capital incentive initially over a five-year period with effect from 4 September 1994 and which matured in September 1999.

The Group chief executive has agreed to defer entitlement to the 4,691,392 Performance Shares which he would otherwise have been able to acquire in September 1999, subject to good leaver, change of control and other specified provisions, so as to correspond with the investment period under LEAP. Accordingly, subject to the provisions of the CIP, the rights to acquire the Performance Shares may be exercised in the period 30 September 2004 to 31 December 2004. These Performance Shares were acquired by an ESOP in 1994 at a total cost of approximately £5.5 million.

JMS has agreed, subject to good leaver, change of control and other specified provisions, to defer its interest under the NSAP on a similar basis to that on which the Group chief executive has agreed to defer his interest under the CIP. Accordingly, subject to the provisions of the NSAP, JMS's right to receive a sum under the NSAP may be exercised in the period 30 September 2004 to 31 December 2004 and will be calculated by reference to the average price of a WPP share for the five dealing days before JMS's right under the NSAP is exercised. The NSAP relates to 1,754,520 notional WPP shares.

Awards made to the Group chief executive or JMS under the CIP; the Notional Share Award Plan and the phantom options, become immediately exercisable on a change of control. Under these plans, 'change of control' is defined as the acquisition by a person or persons of more than 20% of the issued share capital of WPP where this is followed within 12 months by the appointment of a director with neither the Group chief executive's nor JMS's approval.

The rights of the Group chief executive and JMS respectively under the CIP and the NSAP are dependent on Sir Martin Sorrell remaining interested until September 2004 in 747,252 shares in which he invested in September 1994. Pursuant to the authority conferred on the directors at the Company's annual general meeting in 2000, the Company and JMS have entered into a contract to satisfy JMS's entitlement under the NSAP by the allotment of new shares in the Company.

Mr Michael Dolan's Service Contract

At the time of the execution of the merger agreement, Young & Rubicam Inc. entered into a service agreement with Mr Dolan, as chief executive officer of Young & Rubicam Inc. following the merger.

Mr Dolan's service agreement provides for an initial four year term of employment which begins upon completion of the merger. The service agreement also provides for a one year extension of the term of employment. Under his service agreement, the remuneration will comprise:

- a starting annual base salary of US$800,000, subject to increase by WPP;
- an annual cash bonus with a target bonus amount of US$600,000 (but with an opportunity to earn up to 200% of his base salary) to be determined based on the achievement of annual targets provided that for the year 2000, Mr Dolan's annual bonus will not be less than US$800,000;
- a one-time stay bonus of US$800,000 payable on the first anniversary of completion of the merger if Mr Dolan is then an employee of Young & Rubicam Inc.;
- on 1 January 2001, an award of 5,000 units pursuant and subject to the terms and conditions of a long-term incentive plan to be established. This plan is modelled on the WPP Operating Company Long Term Incentive Plans;
- in September 2001, the grant of stock options to acquire WPP ADSs with an aggregate fair market value equal to his annual base salary at that time, subject to the terms of the Executive Plan;
- on 20 September 2000 the Board resolved (in the light of provisions contained in Mr Dolan's service contract) that in order to retain his services and in the special circumstances which applied to him at the time of the merger with Young & Rubicam Inc. it was necessary to make a separate award to him under LEAP. Consequently Mr Dolan has been invited to participate in LEAP on the basis that he commits 64,400 WPP ADRs (322,000 shares). Mr Dolan's participation in LEAP covers a four year period, so that the maximum number of matching shares to which he may become entitled will be pro-rated to 80% of the standard level or 257,600 WPP ADRs (1,288,000 shares).

Mr Dolan's service agreement also provides that if his employment is terminated by Young & Rubicam Inc. without cause (as defined in the service agreement) or he leaves Young & Rubicam Inc. for good reason (as defined in the service agreement) within two years following completion of the merger, he will be entitled to receive:

- a pro rata bonus for the performance year in which his contract is terminated;
- a severance benefit equal to three times the sum of:
  - his highest annual base salary at any time during the 12 months immediately preceding the date of termination of his contract; and
  - the greater of his annual target bonus immediately preceding the date of termination of his contract and the average of his

annual bonuses earned during the three year period preceding the merger; and
- insurance and supplemental retirement benefits.

If, however, Mr Dolan's employment is terminated by Young & Rubicam Inc. without cause or he leaves Young & Rubicam Inc. for good reason within the third or fourth year of the initial term of his service agreement, he will be entitled to a severance benefit equal to, depending upon the time of termination, no less than one times but no more than two times the sum of:

- the greater of his annual base salary during the year preceding the termination of his employment; and
- the greater of his annual target bonus amount immediately preceding the date of termination of his contract and the average of his annual bonuses earned during the three year period preceding the merger.

The service agreement provides that if any payments to Mr Dolan under the agreement or otherwise would be subject to tax under Section 4999 of the US Code, Young & Rubicam Inc. will provide an additional payment so that Mr Dolan will receive a net amount equal to the payment he would have received if the tax had not applied.

Mr Dolan's service agreement also provides that in relation to any awards of performance shares granted to him under the Young & Rubicam 1997 Incentive Compensation Plan, performance goals and other conditions will be deemed to be met as of the effective time of the merger and Young & Rubicam Inc. will pay him a lump sum cash payment equal to the value of these performance shares. The benefits payable under his service agreement are in lieu of any severance benefits to Mr Dolan under any other agreements or severance plans of Young & Rubicam Inc. Mr Dolan has also entered into covenants which apply for 12 months following termination of his service agreement.

Compensation of 'executive officers'
The following tables set out compensation details for the Group chief executive and each of the other five most highly compensated executive officers in the Group as at 31 December 2000 (the 'executive officers'). As used in this statement, the 'executive officers' are deemed to include executive directors of the Company, or an executive who served as the chief executive officer of one of the Group's major operating companies.

This information covers compensation for services rendered in all capacities and paid in each of the two calendar years ended 31 December 2000 and 1999. Incentive compensation paid in 2001 for performance in 2000 and previous years, is not included in these tables, consistent with US reporting requirements.

2000 executive remuneration

						Long Term Compensation[5]			
Name	Principal position	Year	Salary $000	Bonus[1] $000	Other annual compen -sation[2] $000	Share options SARs and phantom shares[3] Number	Restricted shares Number	LTIP payments $000	All other compensation[4] $000
M S Sorrell	Group chief executive	2000	1,295	819	36	–	–	–	515
	WPP Group	1999	1,231	979	37	–	–	–	524
S Lazarus	Chairman/ Chief executive officer								
	Ogilvy & Mather	2000	850	638	43	15,807	216,629	273	128
	Worldwide	1999	850	638	31	18,288	215,554	263	128
C Jones	Chief executive officer								
	J. Walter Thompson	2000	750	417	20	11,855	7,024	90	108
	Company	1999	750	225	18	16,138	18,072	153	112
I Gotlieb	Chairman/								
	Chief executive officer	2000	750	600	21	–	–	–	13
	MindShare	1999	219	–	7	96,826	–	–	25
H Paster	Chairman/								
	Chief executive officer	2000	550	344	17	8,694	5,422	123	23
	Hill & Knowlton	1999	550	344	17	11,834	6,300	159	31
R Seltzer	Chairman/ Chief executive officer								
	Ogilvy Public	2000	450	338	25	7,113	34,165	113	9
	Relations Worldwide	1999	423	395	25	9,682	72,487	–	8

Notes

1 Represents short-term incentive awards paid during calendar years 2000 and 1999 in respect of the prior year's incentive plans.

2 Includes the value of company cars, club memberships, executive health and other benefits and supplemental executive life insurance.

3 As used in this report, the term 'phantom shares' (as used in the UK) and the term 'free-standing SARs' (as used in the US) are interchangeable. Matching shares which could vest under LEAP are not included in this table, but are referred to on page 89.

4 Includes accruals during each calendar year under consideration, under defined contribution retirement and defined benefit retirement arrangements.

5 Options granted in 2000 were over ADRs (based on the ratio in existence at 31 December 1999).

Options granted in 2000

	Stock options, granted (number of ADRs)	% of total options granted by Company in 1999	Exercise price ($ per share)	Expiry date	Potential realisable value at assumed annual rates of stock price appreciation for option term		
					0% $000	5% $000	10% $000
M S Sorrell	–	–	–	–	–	–	–
S Lazarus	15,807	2.1%	63.26	2 Sep 2010	–	629	1,594
C Jones	11,855	1.6%	63.26	2 Sep 2010	–	472	1,195
I Gotlieb	–	–	–	2 Sep 2010	–	–	–
H Paster	8,694	1.1%	63.26	2 Sep 2010	–	346	877
R Seltzer	7,113	0.9%	63.26	2 Sep 2010	–	283	717

All options granted to executives in this table are exercisable three years from the grant date and expire ten years from the grant date.

Stock option, SAR and phantom stock exercises in last financial year and final year-end share option, SAR and phantom stock values

	Ordinary shares acquired on exercise	Market value at exercise date ($)	Number of ordinary shares underlying unexercised share options, SARs and phantom stocks at year-end		Value of unexercised in-the-money stock options, SARs and phantom stocks at year-end ($)[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M S Sorrell	–	–	1,571,190	577,391	19,232,734	6,528,738
S Lazarus	592,428	8,292,649	434,531	454,735	4,144,241	2,773,366
C Jones	341,586	3,082,321	–	290,316	–	1,563,968
I Gotlieb	–	–	–	484,130	–	1,581,895
H Paster	–	–	247,219	179,820	2,480,271	860,831
R Seltzer	–	–	86,752	164,162	762,587	851,679

[1]The value is calculated by subtracting the exercise price from the fair market value of the Company's ordinary shares on 31 December 2000, namely £8.72 and using an exchange rate of $1.4937 to £1.

Long-term incentive plan grants in 2000[1]

	Performance period	Threshold $	Target $	Maximum $
M S Sorrell[2]	2000 – 2002	n/a	n/a	n/a
S Lazarus	2000 – 2002	–	650,000	975,000
C Jones	2000 – 2002	–	600,000	900,000
I Gotlieb	2000 – 2002	–	400,000	600,000
H Paster	2000 – 2002	–	275,000	412,500
R Seltzer	2000 – 2002	–	150,000	225,000

Notes

1 This table does not include the maximum number of Matching shares which are capable of vesting under LEAP, but these are referred to on page 89. If the performance requirement under LEAP is satisfied to the fullest possible extent and subject to the WPP investment shares being retained until the end of the investment period (September 2004), the maximum number of Matching shares which may vest in relation to the performance period ending 31 December 2003, is as follows: Sir Martin Sorrell (including those attributable to JMS) 5,369,070; S Lazarus 1,610,700; C Jones 1,610,700; H Paster 439,750; and R Seltzer 362,400.

2 An award of 137,255 units under the Performance Share Plan was made to Sir Martin Sorrell during 2000. Each unit is analogous to an ordinary share of WPP Group plc. Details of this award are referred to on page 89.

Employee relations

Success depends on the quality and performance of all of our people worldwide. The Group's employment policies are designed to attract, retain and motivate the most talented individuals and we invest significantly in communications, training and development programmes at both parent and operating company level as well as encouraging an ownership culture through WPP stock option and other incentive plans.

Equal opportunities

The Compensation committee and the Group endorses and supports the principles of Equal Employment Opportunity. It is the policy of the Group in its businesses throughout the world to provide equal employment opportunities to all appropriately qualified individuals irrespective of race, creed, colour, age, religion, sex, disability, sexual orientation, marital status, military service, national origin or ancestry.

The purpose of the Group's policy is to ensure that all employment decisions are made, subject to its legal obligations, on a non-discriminatory basis, whether at the time of employment, in promotion, training, remuneration, termination of employment or whenever any terms and conditions of employment are being considered.

Employee ownership

The Group's Worldwide Ownership Plan, introduced in 1997, has given more than 18,000 of our people a direct stake in WPP's financial success. Details of this Plan and other executive stock option plans can be found on page 94.

People working in the Group currently own, or have interests in, in excess of 71 million shares representing over 6% of the issued share capital of the Company.

Employee communications

WPP places great importance in keeping people in our operating companies informed about the Group's progress, activities and all matters affecting them and our business. Encouraging people to expand their knowledge of the Group is achieved through a number of communications initiatives:

- formal and informal meetings at the individual company level;
- periodic reports from the Group's chief executive to all people participating in short- and long-term incentive plans;
- distribution of the annual report, the *Navigator*, *The Catalog*, the *Atticus* journal and WPP's global newspaper – *The WIRE* – to all companies worldwide;
- a monthly online news bulletin – *e.wire*; and
- regular communications on major WPP initiatives such as the Worldwide Partnership Program, *BRANDZ*™, the Atticus Awards, the WPP Fellowship Program and professional development workshops.

Professional development

The parent company runs a dynamic program of cross-company forums, courses and workshops to inform, stimulate and inspire people in operating companies around the world. Some 3,600 Group professionals have now participated in a wide range of management, sector-specific and mind-stretching development workshops.

Most of our operating companies have well-established career development programs, as well as regular appraisal processes such as 360 degree feedback. Research International, J. Walter Thompson and Coley Porter Bell in London were among the first in their sectors to gain the Investors In People accreditation for the training and development of their people. Many companies also offer formal student placement programs to nurture new talent within our business.

More information about our people programs can be found on our website.

Policy on external appointments

The Company recognises that its directors and senior executives may be invited to become non-executive directors of other companies and that such exposure may be beneficial to the Company. Consequently, executives are allowed to accept non-executive appointments with non-competing companies subject to obtaining the approval of the Group chief executive in the case of senior executives and the approval of the Board in the case of executive directors. Any fees receivable out of such appointments are retained by the individuals concerned.

Non-executive directors

Remuneration for non-executive directors consists of fees for their services in connection with the Board and Board committee meetings and where appropriate, for devoting additional time and expertise for the benefit of the Group. Non-executive directors are not eligible for membership of any Company pension plans, and do not participate in any of the Group's short- or long-term incentive programs. Non-executive directors may receive a part of their fees in ordinary shares of the Company, including in the form of options exercisable, at par value of the shares on completion of the non-executive directors' services.

Philip Lader's letter of appointment is for a term of three years subject to review after two years. All other non-executive directors have letters of appointment, which are renewable for a two-year period.

On behalf of the Board
S W Morten
Chairman of the WPP Group plc
Compensation committee
4 May 2001

About share ownership

Information for share owners

Share owners' register

A register of share owners' interests is kept at the Company's head office and is available for inspection on request. The register includes information on nominee accounts and their beneficial owners.

Analysis of shareholdings at 31 December 2000

Issued share capital as at 31 December 2000: 1,111,853,705 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	1,292	9.87	80,952	0.01
101 – 250	1,472	11.24	278,046	0.03
251 – 500	2,555	19.52	984,398	0.09
501 – 1,000	2,672	20.41	2,072,474	0.19
1,001 – 5,000	2,847	21.75	6,296,709	0.57
5,001 – 10,000	517	3.95	3,749,352	0.34
10,001 – 25,000	490	3.74	7,896,125	0.71
25,001 – 50,000	295	2.25	10,494,813	0.94
50,001 – 100,000	262	2.00	18,894,207	1.70
100,001 – 500,000	442	3.38	101,680,582	9.15
500,001 – 1,000,000	104	0.79	74,729,886	6.72
1,000,001 – 2,000,000	61	0.47	85,779,188	7.71
2,000,001 – 3,000,000	23	0.18	56,853,754	5.11
3,000,001 – 4,000,000	13	0.10	44,891,217	4.04
4,000,001 and above	46	0.35	697,172,002	62.69
Total	**13,091**	**100**	**1,111,853,705**	**100**

Share owners by geography	%
United Kingdom	**44**
United States of America	**44**
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	**12**
Total	**100**

Share owners by type	%
Institutional investors	**96**
Employees	**3**
Other individuals	**1**
Total	**100**

Dividends

Ordinary share owners have received the following dividends in respect of each financial year:

	2000	1999	1998	1997	1996
Interim dividend per ordinary share	**1.2p**	1.0p	0.84p	0.70p	0.556p
Final (2000 proposed) dividend per ordinary share	**2.55p**	2.1p	1.72p	1.43p	1.144p
Total	**3.75p**	3.1p	2.56p	2.13p	1.700p

American Depositary Receipts (ADRs)

Each ADR represents 5 ordinary shares.

ADR holders receive the annual and interim reports issued by WPP Group plc.

WPP Group plc is subject to the informational requirements of the US securities laws applicable to foreign companies and files an annual report on Form 20-F and other information with the US Securities and Exchange Commission. Form 20-F is also available from our Investor Relations departments in London or New York.

ADR dividends

ADR holders are eligible for all stock dividends or other entitlements accruing on the underlying WPP Group plc shares and receive all cash dividends in US dollars. These are normally paid twice a year.

Dividend cheques are mailed directly to the ADR holder on the payment date if ADRs are registered with WPP's US depositary. Dividends on ADRs that are registered with brokers are sent to the brokers, who forward them to ADR holders. WPP's US depositary is Citibank N.A. (address on page 104).

Dividends per ADR, including UK tax refunds but before US tax credits, in respect of each financial year are set out below.

	2000	1999	1998[2]	1997[2]	1996[2]
In sterling					
Interim	**6.0p**	5.0p	4.2p	3.50p	2.78p
Final (2000 proposed)	**12.75p**	10.5p	8.6p	7.15p	5.72p
Total	**18.75p**	15.5p	12.8p	10.65p	8.50p
In dollars [1]					
Interim	**9.4¢**	8.1¢	6.95¢	5.70¢	4.34¢
Final (2000 proposed)	**19.3¢**	17.0¢	14.25¢	11.75¢	8.93¢
Total	**28.7¢**	25.1¢	21.21¢	17.45¢	13.27¢

Notes

1 The ADR dividends represent a sterling liability, but for convenience have been translated to US dollars at the average rate for the relevant year.

2 These amounts have been restated to reflect the current value of one ADR to 5 ordinary shares (prior to 16 November 1999 one ADR represented 10 ordinary shares).

For dividends paid on or after 6 April 1999, ADR holders are no longer able to reclaim any part of the UK tax credit related to dividends. Under the terms of the US treaty, dividend payments will be reduced by a maximum withholding tax amount of 15% of the total of the dividend and the accompanying tax credit. The tax credit may not be reclaimed but the excess of the withholding tax (15% of the total dividend and the accompanying tax credit) over the tax credit (one-ninth of the dividend) is not collected and does not reduce the dividend payable.

The aggregate of the dividend and the tax credit will be treated as a dividend for US tax credit purposes. Any US taxation liability can be reduced by a claim for credit for the UK withholding tax actually suffered.

Dollar amounts paid to ADR holders depend on the sterling/dollar exchange rate at the time of payment.

Financial calendar

- The 2000 final dividend will be paid on 9 July 2001 to share owners on the register at 8 June 2001.
- Interim statements for the half-year ending 30 June are issued in August.
- Quarterly trading announcements are issued in April and October.
- Interim dividends are paid in November.
- Preliminary announcements of results for the financial year ending 31 December are issued in February.
- Annual reports are posted to share owners in May.
- Annual general meetings are held in London in June.

Share price

The mid-market price of the shares at 31 December was as follows:

	2000	1999	1998
Ordinary 10p shares	**872.0p**	981.0p	365.8p

Within the UK, the latest ordinary share price information is available on Ceefax and Teletext and also the Cityline service operated by the *Financial Times* (telephone 0891 434544 or 0336 434544; calls charged at 50p per minute at all times).

Access numbers

	NASDAQ	**Reuters 2000**	**Topic**
Ordinary shares		WPPL.L	52945
American Depositary Receipts	WPPGY		

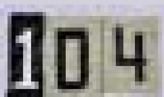
Registrar and transfer office
Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

American Depositary Receipts (ADRs)
Citibank N.A.
111 Wall Street
5th Floor
New York
NY 10043

WPP registered office
Pennypot Industrial Estate
Hythe
Kent CT21 6PE
The Company's registered number is 1003653.

Reclaiming income tax on dividends
For dividends paid on or after 6 April 1999, the tax credit available to individual share owners resident in the UK is reduced by 1/9th of the dividend, and tax credits are no longer repayable to UK holders with no tax liability. Also with effect from 6 April 1999, individuals whose income is within the lower or basic tax rate bands are liable to tax at 10% on the dividend income and the tax credit will continue to satisfy their income tax liability on UK dividends. The higher rate of tax on dividend income was also reduced to 32.5% from 6 April 1999, which is intended to leave higher rate tax payers the same amount of after tax income as they would have received prior to the changes.

Capital gains tax
The market value of an ordinary share at 31 March 1982 was 39p. Since that date rights issues have occurred in September 1986, August 1987 and April 1993. For capital gains tax purposes the acquisition cost of ordinary shares is adjusted to take account of such rights issues. Since any adjustments will depend on individual circumstances, share owners are advised to consult their professional advisers.



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Recognition for previous years' Annual Reports
1999 Annual Report
Selected to appear in the D&AD 2001 Annual, a showcase of the world's best design work.

1999 ProShare Award for best Annual Report and Accounts in a FTSE 100 Company, for the second year in a row.

1999 British Design and Art Direction Awards: Silver Award to WPP director Jeremy Bullmore for his essay, *Polishing the Apples*.

1998 Stock Exchange and Chartered Accountants Annual Awards for Published Accounts: Highly Commended.

1998 ProShare Award for best Annual Report and Accounts in a FTSE 100 Company.

Written and produced by WPP Group plc
Designed by Addison Corporate Marketing
Illustrations by Richard Borge
Portraits by Nick Higgins
Printed in the UK by Westerham Press, St Ives plc
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