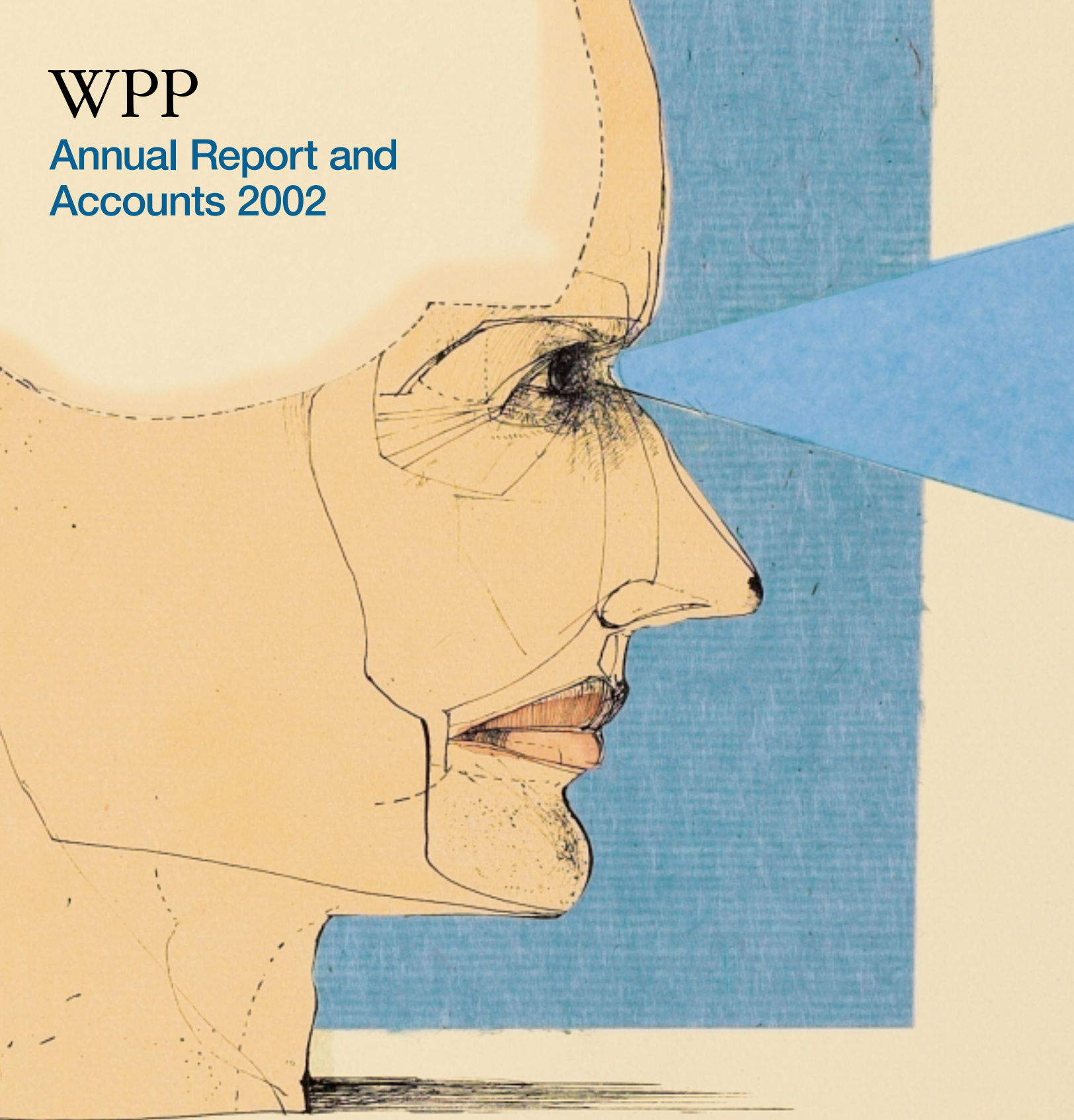


WPP

Annual Report and Accounts 2002



*WPP Archimedes: 2003
many hands make*



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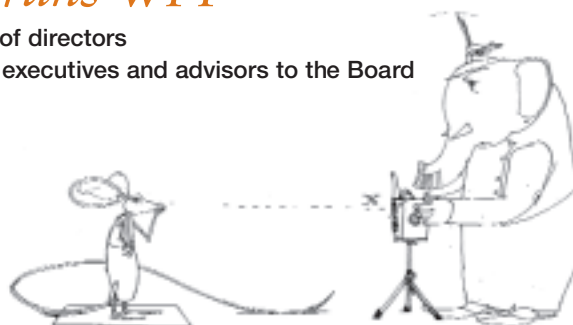
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Current and historical financial information, including trading statements, news releases and presentations are available online at

www.wppinvestor.com

You can receive WPP annual reports, financial statements and press releases by e-mail.

To register, go to

www.wppinvestor.com

and follow the link to 'e-mail services'.

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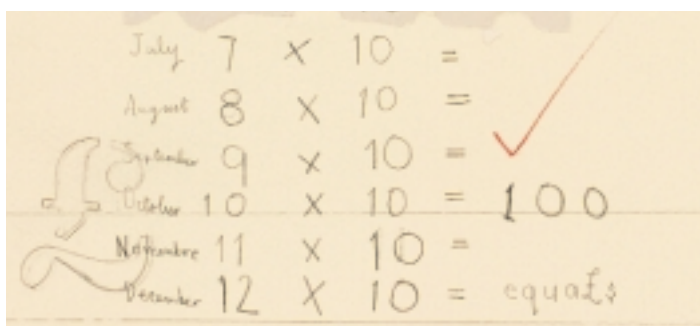
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Group information



The fast read

For a quick, pre-digested, highly-compressed version of this Annual Report: read the next six pages.

The full story starts on page 8. Please read that, too.

1 Who we are

WPP is one of the world's largest communications services groups, made up of leading companies in:

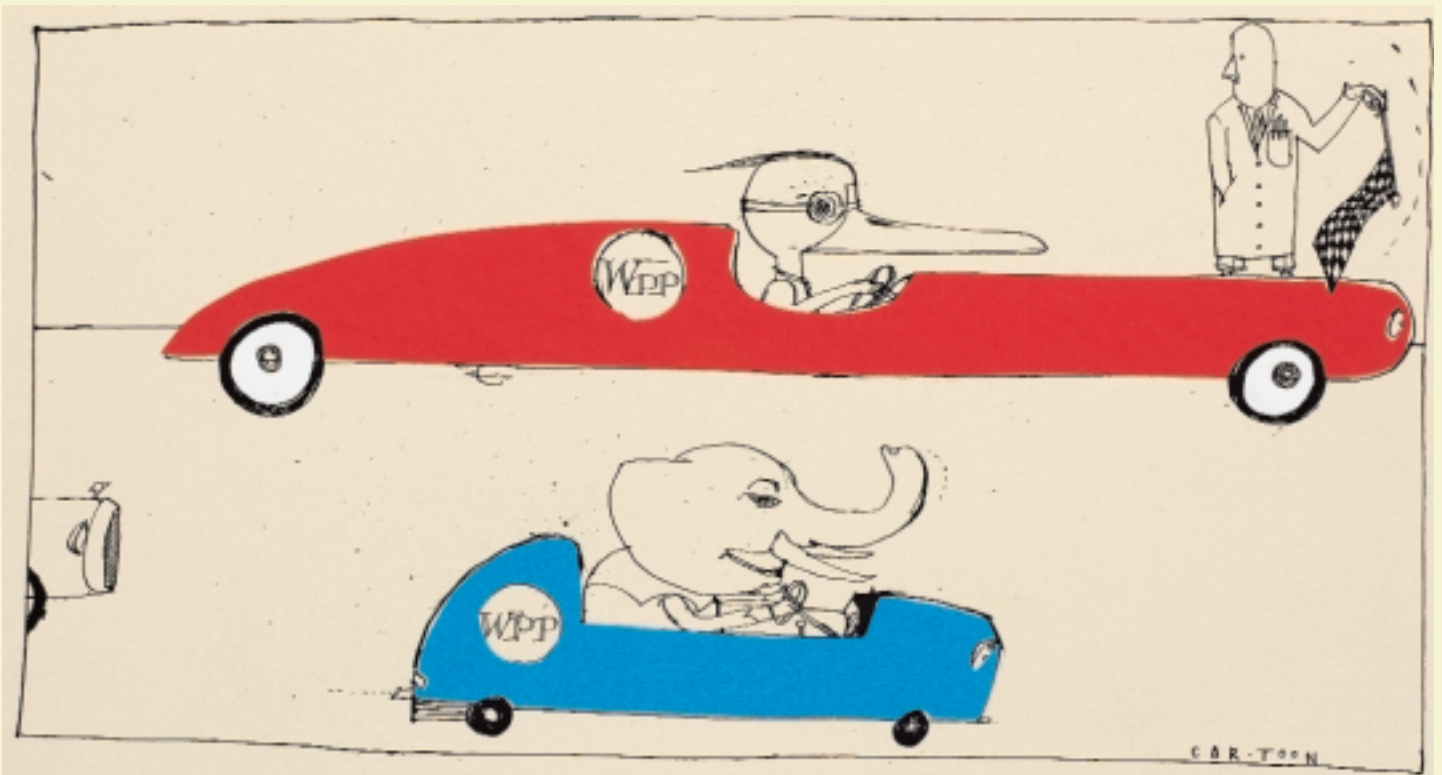
- Advertising
- Media investment management
- Information, insight & consultancy
- Public relations & public affairs
- Branding & identity
- Healthcare
- Direct, promotion & relationship marketing
- Specialist communications

Collectively, the Group has 62,000* people working in 1,400 offices in 103 countries.

WPP companies provide communications services to clients worldwide including more than 330 of the Fortune Global 500; over one-half of the NASDAQ 100 and 42 of the Fortune e-50. Our companies work with over 330 clients in three or more disciplines; more than 230 clients in four disciplines and over 200 clients in six or more countries.

Our companies and their websites are listed on pages 10 and 11.

*Including associates.



2

Why we exist

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.*

Within the WPP Group, our clients have access to companies with all the necessary marketing and communications skills; companies with strong and distinctive cultures of their own; famous names, many of them.

WPP, the parent company, complements these companies in two distinct ways.

First, it relieves them of much administrative work. Financial matters (such as planning, budgeting, reporting, control, treasury, tax, mergers, acquisitions, investor relations) are co-ordinated centrally. Every administrative hour saved is an extra hour to be devoted to the pursuit of professional excellence.

Secondly, and increasingly, the parent company encourages and enables operating companies of different disciplines to work together for the benefit of clients and our people.

In property, procurement, information technology, recruitment, training and knowledge sharing, the parent company also has a significant across-the-Group part to play.

Read more about our role on page 12.

3

What we think

The Advertising and Marketing Services Industry: Short-Term Gloom, Long-Term Glory

WPP CEO Martin Sorrell believes that whilst the short-term outlook for the advertising and marketing services industry is mixed and pressured, the underlying long-term trends of globalisation or Americanisation; over-capacity of production and shortage of human capital; the web; internal communications; and, finally, concentration of distribution, will underline the importance of our thinking and skills and ensure that communications services as a proportion of gross national product will bust through the cyclical highs established at the top of the previous cycle in 2000.

Martin Sorrell's article begins on page 48.

Benjamin Franklin and the Kuala Lumpur Question

“Faced with an array of competitive brands – all known to be functionally satisfactory (which is why they are competitive) and all pleading persuasively for our custom – we have no choice but to eliminate: so in allocating our loyalty we welcome reasons to *reject* a brand almost as eagerly as reasons to prefer it. At some level of consciousness, we search for the Objective Disqualifier, however trivial.”

Jeremy Bullmore's essay can be read in full on pages 61 to 63.



How we're doing

	2002	2001	Change %
Revenues	£3,908m	£4,022m	-2.8
Headline operating profit ¹	£450m	£520m	-13.5
Operating profit – as reported	£273m	£506m	-46.0
PBIT ¹	£480m	£561m	-14.4
PBIT ¹ margin	12.3%	14.0%	-1.7
Earnings before interest, tax, depreciation, and amortisation	£586m	£607m	-3.5
PBT ¹	£401m	£494m	-18.8
Profit before tax	£205m	£411m	-50.1
Diluted headline ³ earnings per share	24.9p	30.9p	-19.4
Diluted headline ³ earnings per ADR ²	\$1.87	\$2.22	-15.8
Ordinary dividend per share	5.40p	4.50p	+20.0
Ordinary dividend per ADR ²	40.6¢	32.4¢	+25.3
Net debt at year-end	£723m	£885m	+18.3
Average net debt ⁴	£1,343m	£834m	-61.0
Share price at year-end	474.5p	760.0p	-37.6
Market capitalisation at year-end	£5,492m	£8,737m	-37.1

Revenues

Our revenues for the year fell by almost 3% to under £4 billion. Headline profit (profit before tax, goodwill and impairment, fixed asset gains, investment write-downs and FRS 17 interest) fell by 19% to £401 million and diluted earnings per share on the same basis also fell by 19% to 24.9p. The good news is that we increased the dividend by 20% to 5.4p per share.

Based on constant currency comparisons, on a like-for-like basis revenues were down almost 6%, pretty much in line with worldwide demand for advertising and marketing services in 2002. Our market share probably held or increased during the year. Given tougher economic conditions, we have modified our like-for-like revenue growth objective from 5-10% to 0-5%.

Notes

¹ Headline operating profit: Operating profit before goodwill amortisation and impairment of £177.7 million (2001: £14.8 million).

PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment of £177.7 million (2001: £14.8 million), fixed asset gains of £9.2 million (2001: £6.8 million) and write-downs of £19.9 million (2001: £70.8 million).

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes of £6.8 million (2001: £3.8 million). The calculation of PBIT and PBT is set out in note 28 of the financial statements.

² One American Depositary Receipt represents five ordinary shares. These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 107. This conversion 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.

³ Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. Earnings per share is disclosed in note 8 of the financial statements.

⁴ See definition on page 134.

Sector and geographic performance

Information, insight & consultancy continued to grow most strongly, although the recession started to affect it in the second half of the year. Advertising and Media investment management and Branding & identity, Healthcare and Specialist communications remained less affected, but Public relations & public affairs continued to be most affected.

Continental Europe, Asia Pacific, Latin America, Africa & the Middle East were less affected by the slow-down, with the US and UK being most affected.

Operating performance

PBIT¹ margins fell to 12.3%, behind our original and revised objectives of 15% and 13% respectively. However, these margins reflect all severance and restructuring costs.

Cash flow

We generated free cash flow⁴ of £349 million.

We almost achieved our newly introduced objective of covering acquisition payments and share buy-backs with our cash flow. Average net debt rose to £1,343 million from £822 million at 2002 exchange rates. WPP's Board is comfortable with this level of gearing, the resultant interest cover of over six times and the recently revised credit ratings of BBB+ (previously A-) and Baa2 (previously Baa1).

Future objectives

We will continue to focus on our key objectives – improving operating profits and margins, increasing cost flexibility, using free cash flow to enhance share owner value and improve return on capital employed, continuing to develop the role of the parent company in adding value to our clients and people, developing our portfolio in high revenue growth geographical and functional areas, and improving our creative quality and capabilities.

Outlook

2003 will be another difficult year, but not as difficult as either 2001 or 2002. As well as geo-political issues, the major cause for concern remains the state of the world economy. However, the prospects for 2004 look better, when the quadrennial factors – including the US Presidential elections and the Athens Olympic Games – kick in. We believe advertising and marketing services will grow by 3-4% in 2004, versus a flat or marginally growing market in 2003.

Our letter to share owners starts on page 17.

Our 2002 operating & financial review and financial statements are presented in full on pages 92 to 135 and at www.wppinvestor.com.

5 Who runs WPP

2002 revenue¹ by geography %

North America	44
UK	16
Continental Europe	23
Asia Pacific, Latin America, Africa & Middle East	17

2002 PBIT^{1,2} by geography %

North America	51
UK	14
Continental Europe	20
Asia Pacific, Latin America, Africa & Middle East	15

2002 revenue¹ by sector %

Advertising and Media investment management	47
Information, insight & consultancy	15
Public relations & public affairs	11
Branding & identity, Healthcare and Specialist communications	27

2002 PBIT^{1,2} by sector %

Advertising and Media investment management	57
Information, insight & consultancy	9
Public relations & public affairs	10
Branding and identity, Healthcare and Specialist communications	24

Notes

- ¹ Percentages are calculated on a constant currency basis. See definition on page 134.
² PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.

Non-executive chairman

Philip Lader, 57

Member of the Compensation committee

Executive directors

Sir Martin Sorrell, 58, Group chief executive

Paul Richardson, 45, Group finance director

Beth Axelrod, 40, Chief talent officer

Howard Paster, 58, Director

Non-executive directors

Jeremy Bullmore, 73

Esther Dyson, 51

Masao Inagaki, 80

John Jackson, 73

Chairman of the Audit committee

Michael Jordan, 66

Member of the Audit committee

David H Komansky, 63

Christopher Mackenzie, 48

Member of the Compensation committee

Stanley (Bud) Morten, 59

Chairman of the Compensation committee

Member of the Audit committee

John Quelch, 51

Directors' biographies appear on pages 64 to 66.

6

How we behave

Corporate governance

WPP's Board of Directors is accountable to share owners for good corporate governance and is committed to achieve compliance with the principles of corporate governance set out in the Combined Code in the Listing Rules of the Financial Services Authority.

To the extent set out in the Directors' report and Report of the Compensation committee, the Board is also committed to implementing recommendations proposed in the Higgs Report, the Smith Report and the Hermes Principles.

The Company complies with the US Sarbanes-Oxley Act, as it affects 'foreign registrants'.

WPP has recently adopted new terms of reference for our Audit, Compensation and Nomination committees.

WPP operates a system of internal control, which is maintained and reviewed in accordance with the Combined Code and the guidance in the Turnbull Report, as well as the Securities Exchange Act of 1934.

Corporate social responsibility

In 2002, WPP adopted a Corporate Social Responsibility (CSR) policy and established a performance baseline comprising a small number of key measures for environmental and social issues. WPP director, Howard Paster, is responsible for the implementation of our CSR policy.

WPP in society

Our operating companies, together with the parent company, make a substantial contribution to society through pro bono work and donations to charity and community organisations. WPP companies contributed more than £12 million worth of time, skills, materials and money to social and community causes in 2001.

WPP as an employer

The Group's employment policies are designed to attract, retain and motivate the most talented individuals. We invest significantly in communications, training and development programs at parent and operating company levels. Our training spend in 2002 was over £21 million, equivalent to £345 for every employee. We encourage an ownership culture through WPP stock option and other incentive plans.

Full details of our governance policies and practices can be found on pages 68 to 77.

7

How we're rewarded

Executive remuneration policy is set by WPP's Compensation committee, based 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 or variable element.
- Incentives are based on meeting specific, measurable and stretching performance objectives, and align executive rewards with creating value for our share owners.
- The total remuneration program includes significant opportunities to acquire WPP stock, consistent with the Group strategy of co-investment and building a strong ownership culture.

Annual grants of WPP performance shares are made to all executive directors and other senior executives in the parent company.

The Executive Stock Option Plan is used annually to make option grants to key executives in our operating companies and parent company, excluding WPP Board directors.

Our Worldwide Ownership Plan provides annual stock option grants to all people in 100%-owned operating companies with more than two years' service. Options under this Plan have been granted to approximately 39,000 people for over 17.8 million WPP ordinary shares.

Our directors' remuneration and interests are described on pages 79 to 82. A full report from the Compensation committee starts on page 83.



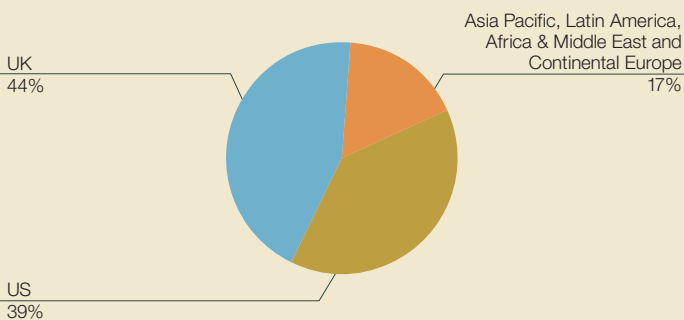
About share ownership

WPP is quoted on the London Stock Exchange and NASDAQ in New York.

Analysis of shareholdings

Issued share capital as at 31 December 2002:
1,157,325,640 ordinary shares, owned by 11,291 share owners.

Share owners by geography



Substantial share ownership

As at 14 May 2003, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

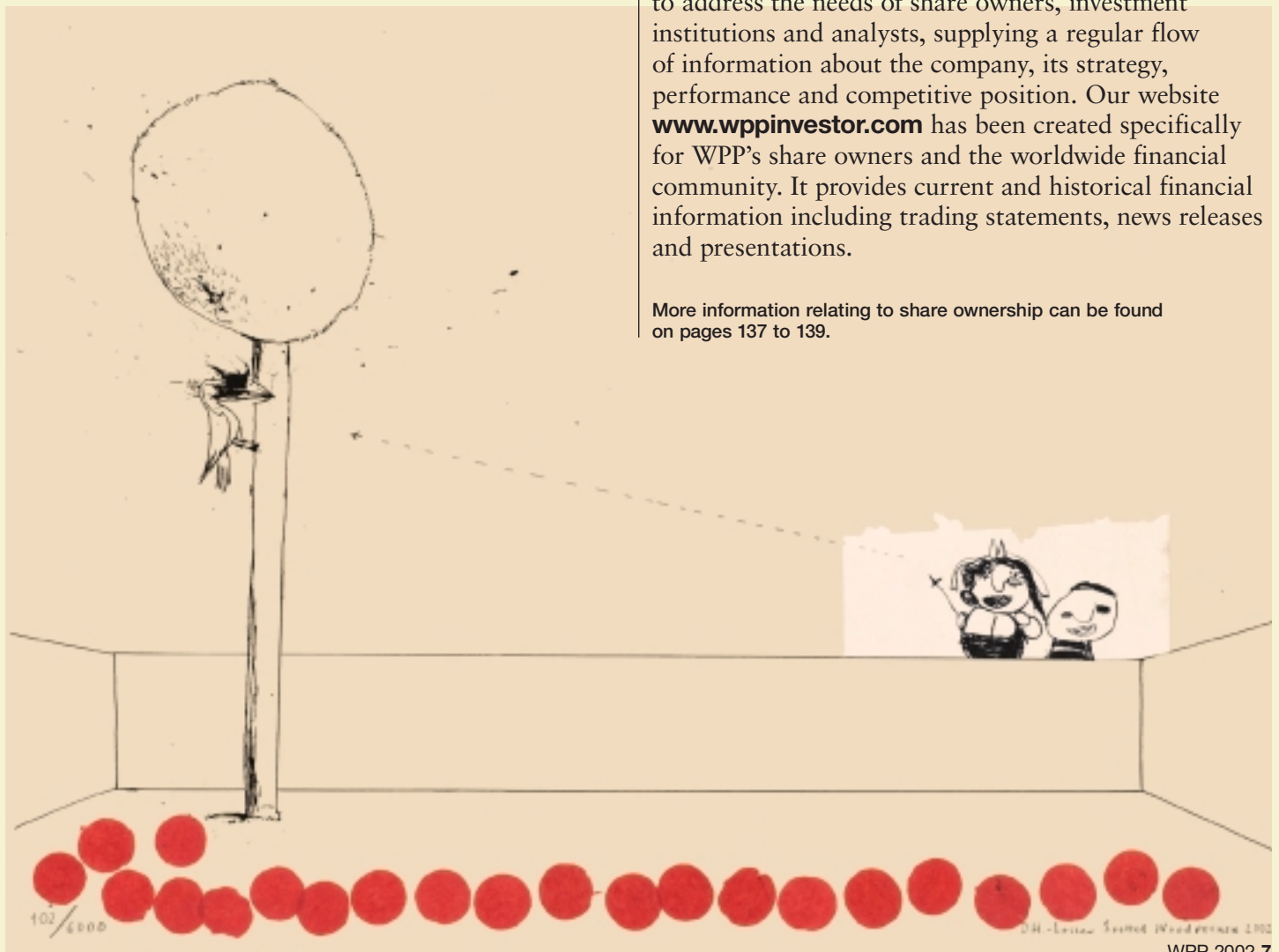
WPP ESOP	4.97%
Morgan Stanley	4.73%
Franklin Templeton Investments	3.95%
Legg Mason	3.71%
Putnam Investments	3.56%
Legal & General	3.49%

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.

Share owner relations

WPP has a well-developed continuous program to address the needs of share owners, investment institutions and analysts, supplying a regular flow of information about the company, its strategy, performance and competitive position. Our website www.wppinvestor.com has been created specifically for WPP's share owners and the worldwide financial community. It provides current and historical financial information including trading statements, news releases and presentations.

More information relating to share ownership can be found on pages 137 to 139.



Who we are

WPP is one of the world's largest communications services groups, made up of leading companies in:

- Advertising
- Media investment management
- Information, insight & consultancy
- Public relations & public affairs
- Branding & identity
- Healthcare
- Direct, promotion & relationship marketing
- Specialist communications

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.

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 more than 330 of the Fortune Global 500; over one-half of the NASDAQ 100 and 42 of the Fortune e-50. Over 330 clients are served in three or more disciplines; more than 230 clients are served in four disciplines and over 200 clients are served in six or more countries.

Collectively, the Group has 62,000* people working in 1,400 offices in 103 countries. ■

*Including associates.





Our companies and associates



Advertising

Asatsu-DK¹
www.asatsu-dk.co.jp

Batey
www.bateyads.com.sg

Dentsu Young & Rubicam (DY&R)^{1,2,†}
www.yandr.com

Equus/Red Cell¹

LGAd¹
www.lgad.co.kr

J. Walter Thompson Company
www.jwt.com

Marsteller Advertising[†]
www.marsteller.com

Ogilvy & Mather Worldwide
www.ogilvy.com

Red Cell
www.redcellnetwork.com

Y&R Advertising[†]
www.yandr.com

Media investment management

BJK&E[▲]
www.bjke.co.uk

Mediahead^{2,▲}
www.media-head.com

The Digital Edge[▲]
www.thedigitaledge.com

Maximize

Mediaedge:cia
www.mediaedgecia.com

Media Insight[▲]
www.mediainsight.com

MindShare
www.mindshareworld.com

Outrider[▲]
www.outrider.com

Portland Outdoor
www.portlandoutdoor.com

Information, insight & consultancy

The Kantar Group:

Added Value
www.added-value.com

BPRI
www.bprigroup.com

Center Partners
www.centerpartners.com

Fusion 5
www.fusion5.com

Glendinning
www.glendinning.com

The Henley Centre
www.henleycentre.com

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

IMRB International¹
www.imrbint.com

Kantar Media Research

– AGB Group¹
www.agbgroup.com

– BMRB International
www.bmr.co.uk

– IBOPE Media Information¹

– Mediafax
www.mediafax-pr.com

Lightspeed Research
www.lightspeedresearch.com

Management Ventures
www.mventures.com

Millward Brown
www.millwardbrown.com

pFour Consultancy
www.pfour.co.uk

Planners¹
www.planners.es

Research International
www.research-int.com

Ziment Group
www.zimentgroup.com

¹ Associate

² Joint venture

³ Minority investment

[†] A Y&R company

[▲] A Mediaedge:cia company

* Member of The Brand Union

As at May 2003

Other marketing consultancies

OHAL
www.ohal.co.uk

Quadra Advisory[†]
www.quadraadvisory.com

Public relations & public affairs

BKSH[†]
www.bksh.com

Blanc & Otus
www.blancandotus.com

Buchanan Communications
www.buchanan.uk.com

Burson-Marsteller[†]
www.bm.com

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

Cohn & Wolfe[†]
www.cohnwolfe.com

Finsbury
www.finsbury.com

Hill & Knowlton
www.hillandknowlton.com

Ogilvy Public Relations Worldwide
www.ogilvypr.com

Penn, Schoen and Berland
www.psb surveys.com

Robinson Lerer & Montgomery[†]
www.rlmnet.com

Timmons and Company

Wexler & Walker Public Policy Associates
www.wexlergroup.com

Branding & identity

CB'a*
www.cba.tm.fr

Enterprise IG*
www.enterpriseig.com

Landor Associates[†]
www.landor.com

The Partners[†]
www.thepartners.co.uk

Addison Corporate Marketing*
www.addison.co.uk

BDG workfutures*
www.bdgworkfutures.com

The Clinic*
www.planetpoint.com/clinic

Coley Porter Bell*
www.cpb.co.uk

Dovetail*
www.dovetaillondon.com

Eurosem*
www.eurosem.com

Lambie-Nairn*
www.lambie-nairn.com

MJM Creative*
www.mjmc creative.com

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

Walker Group/CNI*
www.wgcnl.com

Warwicks*
www.warwicks-uk.com

Healthcare

CommonHealth
www.commonhealth.com

Feinstein Kean Healthcare
www.fkhealth.com

Ogilvy Healthcare

Shire Health Group
www.shirehealth.com

Sudler & Hennessey[†]
www.sudler.com

Direct, promotion & relationship marketing

A. Eicoff & Co
www.eicoff.com

Black Cat
www.black-cat.co.uk

Brierley & Partners[†]
www.brierley.com

Concept!
www.concept.com

Einson Freeman
www.einsonfreeman.com

EWA
www.ewa.ltd.uk

Good Technology*
www.goodtechnology.com

The Grass Roots Group[†]
www.grg.com

High Co[†]
www.highco.fr

Imaginet
www.imaginet.com

KnowledgeBase Marketing[†]
www.knowledgebasemarketing.com

Mando Marketing
www.mando.co.uk

Maxx Marketing
www.maxx-marketing.com

OgilvyOne Worldwide
www.ogilvyone.com

rmg:connect
www.rmgconnect.com

RTC
www.rtc dc.com

Savatar
www.savatar.com

syzygy[†]
www.syzygy.net

ThompsonConnect Worldwide

VML
www.vml.com

Wunderman[†]
www.wunderman.com

Specialist communications

Custom media

Forward
www.theforwardgroup.com

Shine:M²

Spafax
www.spafax.com

Sector marketing Corporate/B2B

Brouillard
www.brouillard.com

Ogilvy Primary Contact
www.primary.co.uk

Demographic marketing

The Bravo Group[†]
www.thebravogroupyr.com

The Geppetto Group
www.geppettogroup.com

Kang & Lee[†]
www.kanglee.com

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

Mendoza Dillon
www.mendozadillon.com

UniWorld[†]
www.uniworldgroup.com

Employer branding/recruitment

JWT Specialized Communications
www.jwtworks.com

Face-to-face marketing

The Event Union*

Foodservice

The Food Group
www.thefoodgroup.com

Investor relations

International Presentations
www.intpres.com

Sports marketing

Global Sportnet
www.globalsportnet.com

Première Group
www.premiere-group.co.uk

PRISM Group
www.prismtteam.com

TWli³
www.imgworld.com

Real estate

Pace
www.paceadv.com

Technology

Banner Corporation[†]
www.b1.com

Media & production services

Clockwork Capital[†]
www.clockworkcapital.com

DigiReels
www.digireels.co.uk

The Farm Group[†]
www.farmpost.co.uk

Metro Group
www.metrobroadcast.co.uk

Tyrell
www.tyrell.co.uk

WPP Knowledge Communities

The Channel
mpooler@wpp.com

Digital Communications Group
sduke@wpp.com

The Exchange
tmathewson@wpp.com

The Store
m.johnson@the-store.org

Why we exist

Our clients all live in competitive worlds.

Whether *Fortune 500* multinationals or single-nation charities, their first requirement, as always, is an intrinsically appealing product.

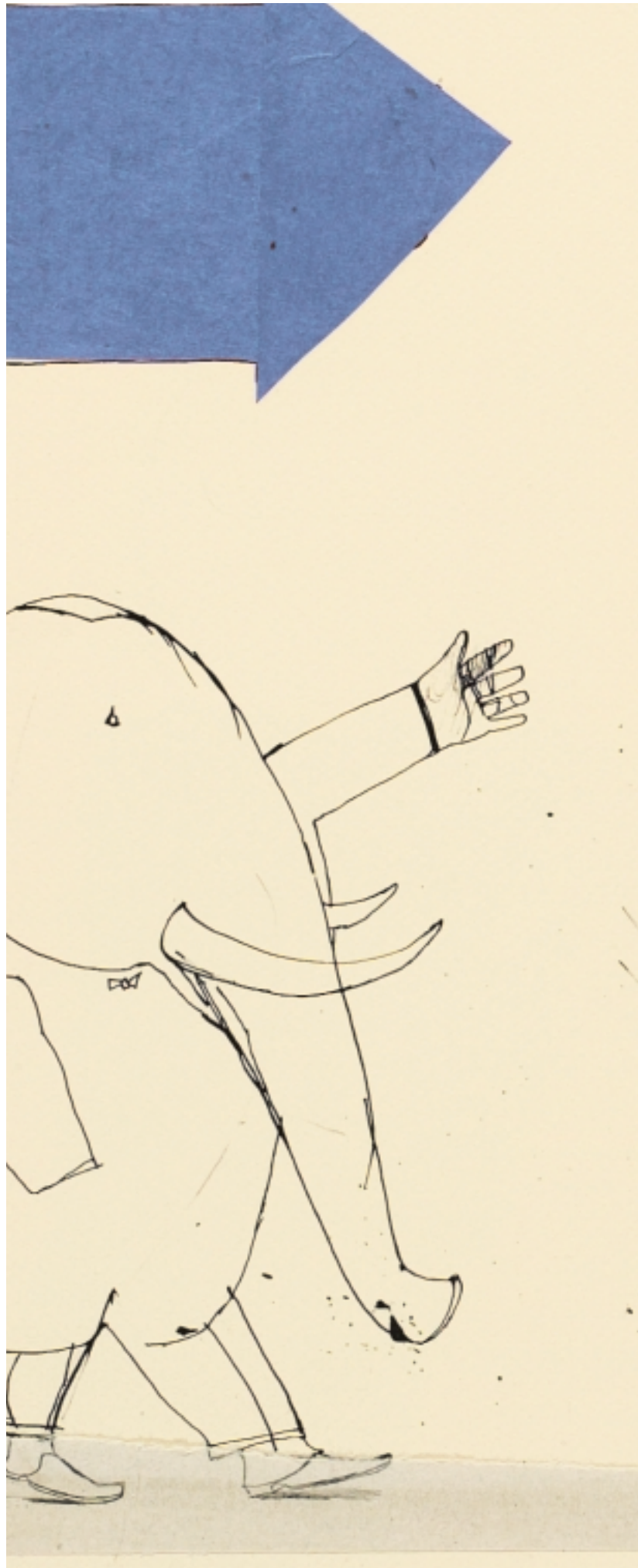
But for many years now, to compete successfully, they have needed more. They need access to high quality information, strategic advice and specialist communications skills. And it is in the nature of specialist talent that it is unlikely to flourish within the confines of a single marketing company. People of specialist skills work best and contribute more when recruited, trained and inspired by specialist companies.

Within the WPP Group, our clients have access to companies of all the necessary marketing and communications skills; companies with strong and distinctive cultures of their own; famous names, many of them.

WPP, the parent company, complements these companies in two distinct ways.

First, it relieves them of much administrative work. Financial matters (such as planning, budgeting, reporting, control, treasury, tax, mergers, acquisitions, investor relations) are co-ordinated centrally. Every administrative hour saved is an extra hour to be devoted to the pursuit of professional excellence.

Secondly, and increasingly, the parent company encourages and enables operating companies of different disciplines to work together for the benefit of clients and our people. In property, procurement, information technology, recruitment, training and knowledge sharing, the parent company also has a significant across-the-Group part to play. One example of working together, the WPP Partnership Program, is now in its seventh year. Already there are 31 published case studies, and another 97 unpublished for reasons of confidentiality, in each of which the respective client has been happy to testify to the benefits derived from working with up to seven different WPP companies in co-ordinated partnership. We are extremely grateful to all those clients for granting us permission to share such experiences with a wider world. There can be no doubt that discrete and sharply-honed specialist talents working together with single-minded unity towards a common end will be a rapidly growing contributor to client success and therefore to Group revenues. ■

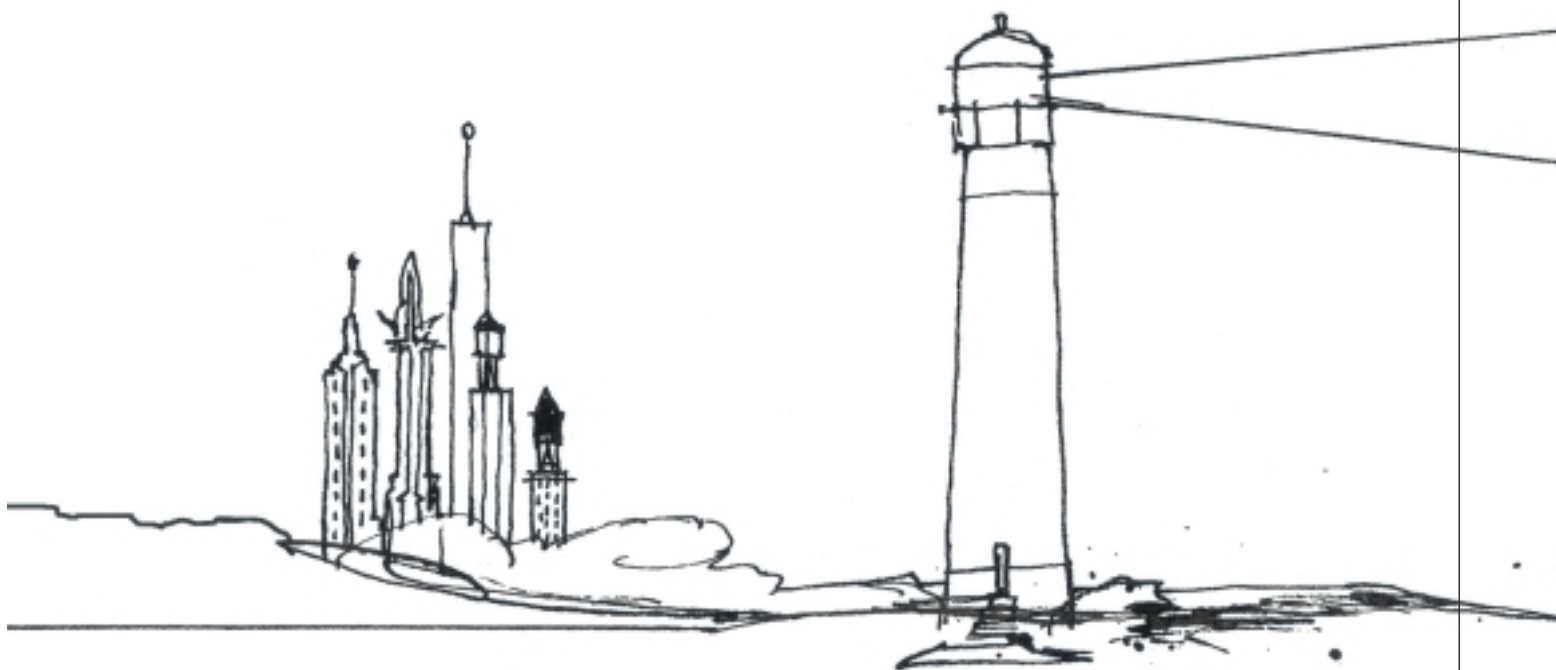




Our mission
*To develop and manage talent;
to apply that talent,
throughout the world,
for the benefit of clients;
to do so in partnership;
to do so with profit.*

How we're doing

Despite very difficult trading conditions throughout the world, our 2002 results reflect the achievement of balancing the market pressure on revenues against reducing costs.



Financial summary

	2002	2001	Change %
Revenues	£3,908m	£4,022m	-2.8
Headline operating profit ¹	£450m	£520m	-13.5
Operating profit – as reported	£273m	£506m	-46.0
PBIT ¹	£480m	£561m	-14.4
PBIT ¹ margin	12.3%	14.0%	-1.7
Earnings before interest, tax, depreciation, and amortisation	£586m	£607m	-3.5
PBT ¹	£401m	£494m	-18.8
Profit before tax	£205m	£411m	-50.1
Diluted headline ³ earnings per share	24.9p	30.9p	-19.4
Diluted headline ³ earnings per ADR ²	\$1.87	\$2.22	-15.8
Ordinary dividend per share	5.40p	4.50p	+20.0
Ordinary dividend per ADR ²	40.6¢	32.4¢	+25.3
Net debt at year-end	£723m	£885m	+18.3
Average net debt ⁴	£1,343m	£834m	-61.0
Share price at year-end	474.5p	760.0p	-37.6
Market capitalisation at year-end	£5,492m	£8,737m	-37.1

Notes

¹ Headline operating profit: Operating profit before goodwill amortisation and impairment of £177.7 million (2001: £14.8 million).

PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment of £177.7 million (2001: £14.8 million), fixed asset gains of £9.2 million (2001: £6.8 million) and write-downs of £19.9 million (2001: £70.8 million).

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes of £6.8 million (2001: £3.8 million). The calculation of PBIT and PBT is set out in note 28 of the financial statements.

² One American Depositary Receipt represents five ordinary shares. These figures have been translated for convenience purposes only using the profit and loss exchange rates shown on page 107. This conversion 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.

³ Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.

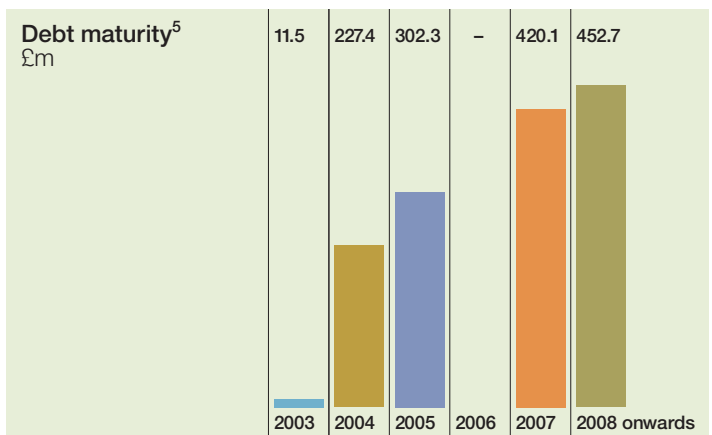
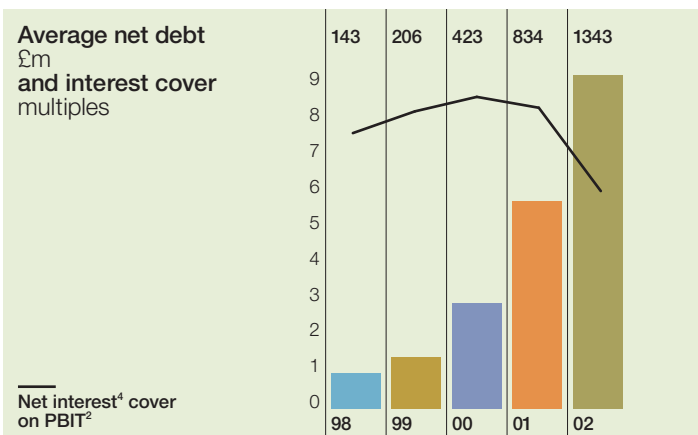
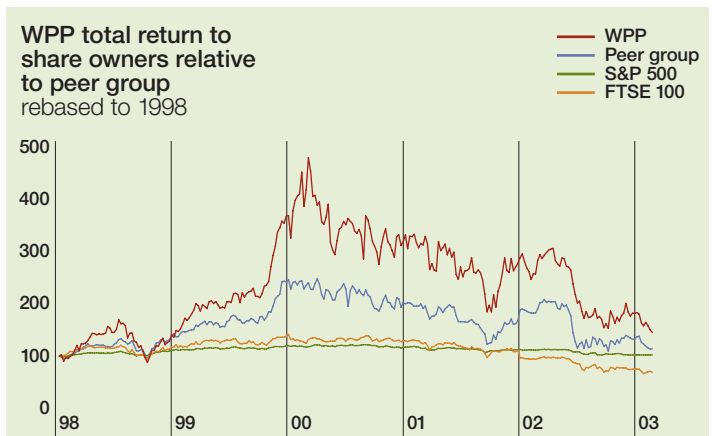
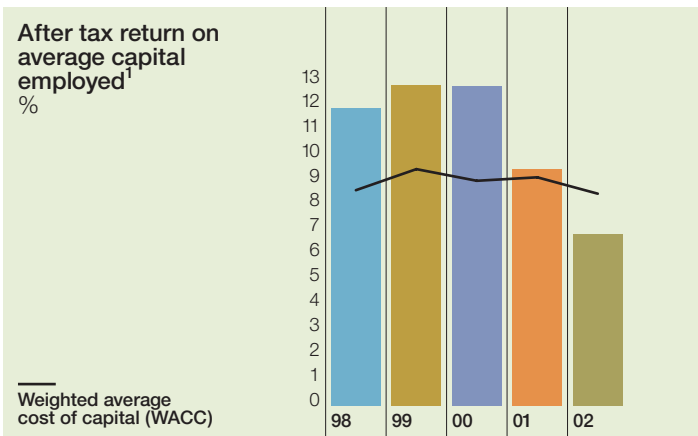
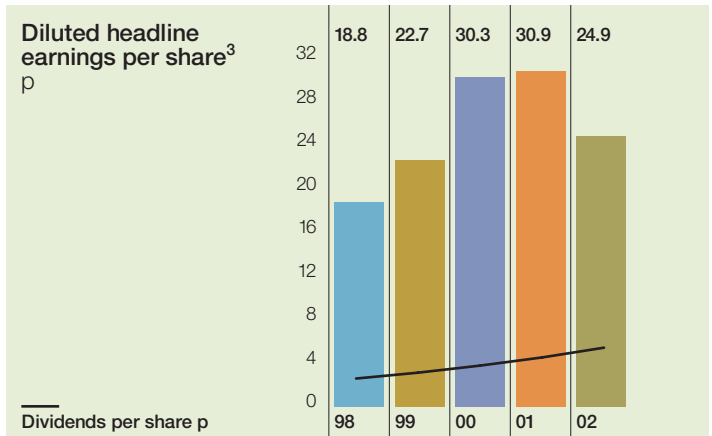
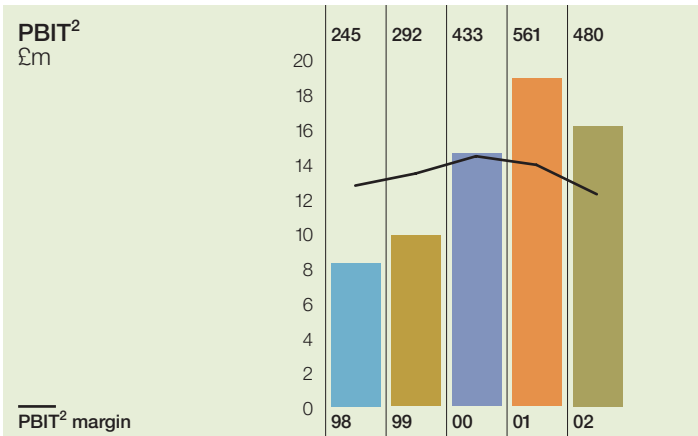
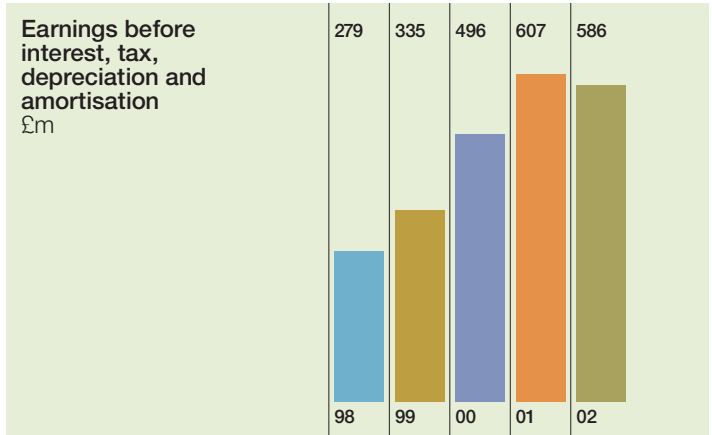
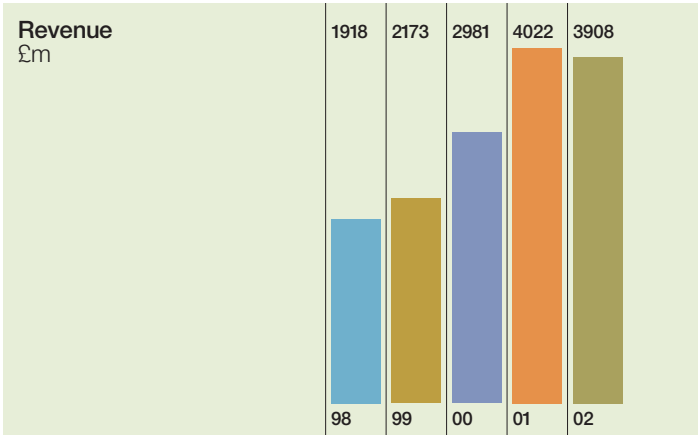
⁴ Earnings per share is disclosed in note 8 of the financial statements.

Average net debt is defined on page 134.



£

Financial summary (continued)



Notes
¹ Calculated gross of goodwill, revaluation reserve and using profit after taxation before goodwill amortisation and impairment, fixed asset gains and write-downs.
² PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.
³ Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.
⁴ The calculation of headline earnings is set out in note 28 of the financial statements.
⁵ Interest excludes net interest charges on defined benefit pension schemes.
⁶ Includes corporate bonds, convertible bonds and bank loans.

2002 revenue¹ by geography
%

North America	44
UK	16
Continental Europe	23
Asia Pacific, Latin America, Africa & Middle East	17

2002 PBIT^{1,2} by geography
%

North America	51
UK	14
Continental Europe	20
Asia Pacific, Latin America, Africa & Middle East	15

2002 revenue¹ by sector
%

Advertising and Media investment management	47
Information, insight & consultancy	15
Public relations & public affairs	11
Branding & identity, Healthcare and Specialist communications	27

2002 PBIT^{1,2} by sector
%

Advertising and Media investment management	57
Information, insight & consultancy	9
Public relations & public affairs	10
Branding & identity, Healthcare and Specialist communications	24

Notes

¹ Percentages are calculated on a constant currency basis. See definition on page 134.

² PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.

Letter to share owners

Dear Share Owner

Our seventeenth year, 2002, was the second difficult year in succession for your company. Although not as brutal as 2001, the recession which started towards the end of 2000, continued to bite and spread from the US into Europe and affected parts of Asia Pacific and Latin America. In these circumstances, the results of your Company were only satisfactory, as our operating companies balanced their costs, primarily in people, against declining revenues.

Revenues fell by almost 3% to under £4 billion. Headline profit – that is profit before tax, goodwill and impairment, fixed asset gains, investment write-downs and FRS 17 interest (bit of a mouthful) – fell by 19% to £401 million and diluted earnings per share on the same basis also fell by 19% to 24.9p. The only really good news was that we increased the dividend by 20% to 5.4p per share.

The share price, the real measure of your wealth, fell for the third successive year, this time by more than 37%, but broadly in line with comparative indices. However, your Company's share price performance ranked fifth in terms of total shareholder return in a comparator group of 15 global competitors since 1 January 1999.

The rest of this letter to you is based on constant currency comparisons, which are more meaningful given the relative weakness of the dollar and strength of the euro in 2002. On a like-for-like basis revenues were down almost 6%, pretty much in line with worldwide demand for advertising and marketing services in 2002. Our market share probably held or increased during the year.

Encouragingly, the like-for-like decline in revenues lessened throughout the year – in the first quarter down 9%, in the second quarter down 8%, in quarter three down by just over 3% and in the final quarter down by under 3%. This trend has continued into 2003, with the first quarter flat compared to the previous year. As last year, given tougher economic conditions, your Company's like-for-like revenue growth objective has been modified from 5-10% to 0-5%.

By discipline, Information, insight & consultancy (previously Information & consultancy and re-named following the transfer of our strategic marketing consultancy businesses from Specialist communications on 1 January 2003), continued to grow most strongly, although the recession did start to affect it in the second half of the year. Advertising and Media investment management and Branding & identity,

Healthcare and Specialist communications remained less affected, but Public relations & public affairs continued to be most affected. As a result, marketing services remained, by revenue, at around 53% of our business in 2002.

Geographically, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East were less affected by the slow-down, with the US and the UK being most affected. As a result, markets outside the US remained by revenue at 56% of our business.

PBIT margins fell to 12.3%, well behind our original objective of 15% and even our revised objective of 13%. However, this performance was better than it may seem at first glance, as these margins reflected all severance and restructuring costs, unlike most of our competitors who have taken exceptional charges, hence flattering their numbers. To some extent these margins also reflect improvements in productivity, as average like-for-like headcount fell by over 8%, with revenues on a similar basis falling by almost 6%.

As a result, profit before goodwill and impairment, interest, tax, fixed asset gains and investment write-downs (another mouthful) fell over 14% to £480 million. In 2001 we wrote down the value of certain minority investments in new media and technology following the collapse in equity valuations in these sectors. In 2002 we wrote these investments down a further £20 million to reflect incremental falls in value.

In addition, given the impact of the recession, we have also taken a goodwill impairment charge of £146 million, primarily to reflect a fall in value of first generation businesses acquired. This amounts to just over 3% of the goodwill in the balance sheet at the beginning of 2002. These non-cash charges are primarily why pre-tax profits fell by 50% to £205 million and diluted earnings per share by over two-thirds to 7.7p.

We generated free cash flow of over £349 million, down almost 31% on last year, which was only marginally over-absorbed by acquisition payments and investments of £281 million, share repurchases and cancellations of £76 million and dividends of £56 million. We, therefore, almost achieved our recently introduced additional cash flow objective of also covering acquisition payments and share buy-backs with our cash flow. Mainly as a result of the full-year impact of cash acquisition payments made in 2001, average net debt rose to £1,343 million from £822 million at 2002 exchange rates. Your Board is still comfortable with this level of gearing, the resultant interest cover of over six times and recently revised credit ratings of BBB+ and Ba1, which have been lowered one notch, primarily reflecting the industry's difficult trading conditions.

2003 will be another difficult year, but not as

difficult as either 2001 or 2002, however. The end of hostilities in Iraq should help, although media markets in the US were relatively undisturbed, with the major cost to the media owners being that of additional news coverage which may have amounted to about \$100 million. The prospects for this year's up-front network media buying season in the US look good – at least from the point of view of the media owners. Continued concerns about possible conflict with Syria, Iran or North Korea do not help and the Israeli–Palestinian situation is still not stable. Worries of further terrorist activity do not help either.

... the major cause for concern remains the state of the world economy

However, to some extent the geopolitical issues are side-shows, as the major cause for concern remains the state of the world economy. We are still recovering from the South Sea Bubble or tulipmania of 2000 and the unprecedentedly long bull market of the 1990s. You really have to go back to the 1920s to find a similarly long-lived cyclical upturn.

Managements remain cautious, particularly given that the average life of a CEO seems to be about four years. The last three years have really witnessed a business-to-business recession, with the consumer only becoming more cautious in recent months. In a low inflationary, relatively high unemployment economy and with very little pricing power, the relentless focus of most clients is on cost – witness the rise of the procurement function.

There is no doubt that we must improve our processes and eliminate waste too, providing clients not only with outstanding creative ideas, but inspired co-ordination and integration of that creativity and at the lowest possible cost.

However, you cannot cut costs to achieve growth forever, and every statistic or piece of data available points to the fact that those companies that innovate and invest in the production and marketing of products and services succeed, whilst cost cutters fail. By any quantitative financial criteria, research shows that those companies that invest during recessionary periods, emerge from those difficult times stronger than their competition, whether measured by sales, market share, margins, return on capital, or whatever measure chosen.

There is a finite limit to cost cutting. There is none to revenue building – at least until you reach 100% market share. The continued emphases in the US automobile and truck markets on zero-coupon financing and cash

give backs, and in the food manufacturing industry on trade incentives to achieve greater distribution are not the answers. It really amounts to a zero sum game, with profitless prosperity and break-even economics at full capacity. Compete on price, you create commodities, compete on innovation, you create brands.

Having said all that, the prospects for 2004 do look better. The quadrennial factors will kick in. President Bush will want to be re-elected and will want a stronger economy to influence electors. Government deficit spending and the stimulatory impact of military spending may help. The Athens Olympics will stimulate media spending, as will the European football championships in Portugal. In addition, political spending in the US Congressional elections will crowd out media markets and push up media prices. All this should ensure that advertising and marketing services will grow by 3-4% versus a flat, or marginally growing market in 2003. However, still not back to the growth levels of the late 1990s or 2000.

At WPP, like-for-like revenues were virtually flat in the first quarter of 2003. Not bad given the impact of the Iraqi conflict on client decision-making and indicative that the market for advertising and marketing services seems to have stabilised.

Our budgets project flat like-for-like revenues for 2003, with the first half being slightly down and the second half marginally up. Operating margins are budgeted to rise by up to one margin point, with operating profits up 10%. Most analysts are doubtful of our ability to improve margins by one margin point this year and are forecasting a rise in headline pre-tax

Our goal remains to become the world's most successful and preferred provider of communications services to multinational and local companies

profits from £400 million to £425-435 million.

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

We have three strategic priorities. First, in the short term, to weather this difficult recession. Secondly, in the medium term, to continue to successfully integrate

the acquisitions of Young & Rubicam Inc and Tempus. Thirdly, to increase the share of marketing services revenues from approximately 53% where it is now to two-thirds, within five to 10 years; and similarly increase the share of Asia Pacific, Latin America, Africa and the Middle East revenues from 20% to one-third; and finally, to increase the share of Information, insight & consultancy, direct and interactive revenues from just over one-third to 50%.

Our six objectives remain as follows:

- First, to continue to raise operating margins to the levels of the best performing competition. 2001 and 2002 have delayed our progress. 13.3% (an improvement of one margin point) now becomes our target in 2003, with 13.8% (an improvement of another half a margin point) in 2004. Beyond 2004, we think there is life after 13.8%. 15% remains our medium-term objective. With regard to the longer term, agencies such as Dentsu and BBDO have achieved 20% although the accounting problems at IPG and its McCann subsidiary have indicated there can be difficulties.
- Second, to continue to increase the flexibility in our cost structure. Our success in this area proved very valuable in 2001 and 2002. Variable staff costs, freelance and consultants' fees have fallen to about 5% of revenue from approximately 7% in 2000. We aim to rebuild this ratio again.
- Third, to improve share owner value by optimising the investments of your Company's £400 million cash flow across the alternatives of capital expenditure, mergers and acquisitions and dividends and share buy-backs. Capital expenditure tends to approximate to the depreciation charges, so the emphasis is more on the balance between mergers and acquisitions, share buy-backs and dividends.

With the slow-down in economic activity, acquisition pricing has become more attractive, particularly outside the US. However, some vendors have not altered their price expectations and others have also become more cautious as their performance has wavered too. The smaller companies in the private markets remain more attractive with single-figure and low double-digit price earnings multiples.

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

- Fourth, to continue to develop the role of your Company as a parent company, beyond that of a financial holding or investment company which focuses solely on financial matters such as planning, budgeting, reporting, control,

treasury, tax, mergers and acquisitions, and investor relations. With a relatively small team of approximately 200 people at the centre, predominantly based in London and New York, with some support in Hong Kong and São Paulo, we continue to focus on the areas of human resources, property, procurement, information technology and practice development.

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

In the human resources area we continue to develop our short- and long-term incentive plans, our WPP Leaders, Partners and High Potential groups; our Worldwide Ownership Plan; our Worldwide Partnership Program; our Atticus Awards – our literary Oscars; our training and knowledge-sharing programs and specialised seminars on creativity, retailing and interactive; and our Marketing Fellowship Program.

In addition, we continue to develop, both internally and externally, an understanding of the vast resources within the Group through a variety of communications: our Group directory, *Navigator*; our global newspaper, *The WIRE*; our monthly online news bulletin, *e.wire*; our weekly *FactFiles* profiling Group resources; and our annual marketing *Atticus* Journal; as well as developing our online communications, the WPP intranet and the Group website, www.wpp.com.

In property management, we continue to implement the WPP Space Program which seeks to improve the return on our annual investment of \$500 million in our property, by improving communications, speed of response and efficiency, through new design and layout of our premises. This unique product has made an impact in the real estate industry and received the *Innovation in Corporate Real Estate Award 2002* from NACORE International, the international association of corporate real estate executives.

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

In information technology, we are increasingly co-ordinating our \$360 million annual investment in hardware, software and information technology salaries.

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

and our start-ups and internal strategic alliances, which reinforce our practice development initiatives.

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

■ Fifth, as we move up the margin curve, to place greater emphasis on revenue growth. A legitimate criticism of our record against the best performing competition is that we have been unable to deliver the highest levels of organic revenue growth. In the last half of the 1990s we averaged 8% organically against 10% for the best performing companies. 2000 was a bumper but unsustainable year. 2001 was disappointing, falling back into the middle of the pack but 2002 (and the start to 2003) seem to indicate a revival. Your Company continues to be amongst the leaders in net new business wins.

Our objective is to position our portfolio in the faster growing functional and geographical areas

Our objective is to position our portfolio in the faster growing functional and geographical areas. Our practice development activities are also aimed to help us achieve this objective and acquisitions so far in 2003 – in Advertising and Media investment management; in Information, insight & consultancy; in Public relations & public affairs – are also key.

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

We will expand our strong networks – Ogilvy & Mather Worldwide, J. Walter Thompson Company, Y&R Advertising, Red Cell, MindShare, Mediaedge:cia, Research International, Millward Brown, Kantar Media Research, Hill & Knowlton, Ogilvy Public Relations Worldwide, Burson-Marsteller, Cohn & Wolfe, OgilvyOne, Wunderman, CommonHealth, Sudler & Hennessey, Enterprise IG and Landor – in high growth markets or where their market share is insufficient. In 2002 we strengthened our position in Advertising and Media investment management in the UK, France, Germany, Spain, The Netherlands, Switzerland, Sweden, Finland, the Czech Republic, Slovakia, Australia, New

Zealand, China, India, Taiwan, Brazil and the Middle East; in Information, insight & consultancy in the US, Ireland, France, Poland and Thailand; in Public relations & public affairs in the US, Norway, China, Australia, Japan and Taiwan; in direct and promotion in the US; and in sports marketing in Germany. In 2003 there will be more work to do again in the heartland of Continental Europe – France, Germany, Italy and Spain.

We will also enhance our leadership position in Information, insight & consultancy by continuing to develop our key brands with particular emphasis on North America, Asia Pacific and Latin America. We will also reinforce our growing position in media research through Kantar Media Research. This includes our investments in television audience research through IBOPE, AGB Group and Markdata, which following even greater success in the UK and Australia, now have strong representation in 36 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 mOne, Mediaedge:cia, OgilvyOne, Wunderman, digital@jwt, Blanc & Otus and Lightspeed. Where the recent compressions in financial valuations may offer significant opportunities, we will also invest directly in the new channels. Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail and interactive and to identify new high growth areas.

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

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

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

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

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

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

As a parent company, we continue to develop practical principles and policies for charitable giving, the environment and support for communities and the arts, based on best practice guidelines. Our activities complement our operating companies' initiatives and programs in these areas. A summary of the Group's approach to corporate social responsibility can be found on pages 75 to 77. We calculate that the WPP organisation donates more than £12 million to charitable causes each year in the form of direct and indirect donations.

In stark and unwelcome contrast to the year 2000, 2001 was a truly brutal year. 2002 was just as testing and 2003 looks to offer only slight relief: most of the world continues to experience troubled times, and uncertainties prevail. If we peer ahead to 2004, however, there is prospect of some cheer; and if and when it comes, those who have earned it most deservedly will be those 62,000 men and women in WPP companies around the world.

Testing times test people to their limits. Over the last three years, WPP people have responded with great courage and grim determination. Work such as theirs offers both financial and emotional rewards; for most of our people, neither has recently lived up to that of past years and present hopes. Yet their work on behalf of our clients has been unaffected: as unstinting and imaginative as ever. On your behalf, we are proud to honour their achievements and thank them wholeheartedly for their irrepressible professionalism and doughty dedication. ■



Philip Lader
Chairman



Sir Martin Sorrell
Group chief executive

Reports from our operating brands

On the following pages, the people who run our operating companies describe the highlights and developments within their businesses during 2002.



Advertising

Ogilvy & Mather Worldwide

Following a year of uncertainty and looking ahead to more of the same, it is reassuring to see so many signs that Ogilvy has the right strategy in place to both weather the times and emerge with strength.

One of the most obvious is that virtually the entire marketing industry has thoroughly embraced our vision of integrated communications – a road we started down many years ago as we developed 360 Degree Brand StewardshipSM. Early to the game, we now have the advantage of wide practice throughout our disciplines; we've done it time and time again for some of the great global brands with great success.

We see other encouraging signs. Certainly, winning significant new business in a tough year is one measure of success. Importantly, the majority of our new gains were local clients won by local offices. We are only strong as a network if we are strong on the ground. Additionally, making our budgets for the eleventh straight year, while continuing to improve our productivity, is a critical measure of health... a promise made and fulfilled for all our stakeholders.

In a year in which flat could be considered good, we held our own in every region, and even gained share in some key markets such as Germany, Mexico and Brazil. We also grew our ranking throughout Asia, where we continue to be dominant in all disciplines and are widely considered to be the No.1 creative network, proving that it is possible to be both big and great. Most promising, we are the largest international communications network in China. With China now in the World Trade Organization and Beijing playing host to the 2008 Olympics, we see huge opportunities for our clients and enormous potential growth.

A measure we look to every year is the quality of our work. We've seen our creative reputation continue to grow this year, winning awards at all the major international shows such as Cannes, One Show, D&AD, and Communication Arts, as well as the major regional competitions.

We are now at a point where nearly 50% of our revenue and fully half of our growth prospects come from just 20 global clients. These are remarkable partnerships made possible not because we have sufficient geography, but because we have made working across geography in our clients' interest the priority. Our value to global clients is measured by how well our offices manage together in the long run. It is measured by the quality of the total body of work, by our ability to marry big ideas with complex communication programs and to carry ideas meaningfully across borders and over years, and by our willingness to structure ourselves to meet individual client needs. This is evident in our



Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

enduring partnerships with IBM, Unilever, American Express, Eastman Kodak, BP, Motorola, Mattel, Nestlé, SAP and Kraft among many others – all of whom gave us new or expanded assignments this year.

We look to grow with this core, and have been focusing our creative leaders on delivering the best possible work for these clients. We have formed a Global Brand Community – bringing together the leaders of our largest businesses – to focus on developing the most dynamic and effective global client service network in the industry.

Our offering continues to diversify and expand. In every region we are adding acquisitions, joint ventures, partnerships and start-ups, covering a range of 360 offerings from sales promotion to healthcare communications, event and entertainment marketing, data mining, and brand identity. As we expand, we keep the focus on integrating these disciplines in service of our brands. This is the promise inherent in 360 Degree Brand StewardshipSM. We are committed to mastering the matrix of delivery. This commitment is not for the faint of heart – it requires ability, discipline, fierce partnership and great people. You can promise 360 with words, but to deliver it you need talented leaders and strength through the ranks. I am proud to be able to say that this is the case at Ogilvy.

All of the accomplishments I've mentioned point to the fact that we simply come at the job differently these days. Virtually every dialogue with our clients – from global to local – starts with a discussion of their brand and how we can use every point of contact with each audience in ways that are tactically spot-on and creatively bright. This is what clients want. This is why they have come to us, and this is what we are devoted to delivering – last year, this year, next year. So while the world catches up to the idea of 360 Degree brand building and integrated marketing, I am very pleased that our long practice is paying off. ■

Shelly Lazarus

J. Walter Thompson Company

Our industry began 2002 faced with the worst advertising slump since the Great Depression. While many of our competitors faltered, J. Walter Thompson used hard times to create opportunities of its own.

Brands become beacons of quality assurance, particularly when times are tough. The JWT brand delivered creativity and professionalism, lending confidence and continuity to the marketing efforts of current and new clients around the globe.

We added over \$800 million in estimated net new billings worldwide. We welcomed new clients to our roster including such multinationals as Vodafone and Reckitt Benckiser as well as Domino's Pizza, Novell and Western Union. Importantly, we won significant new assignments from our current global clients including Ford, Kellogg's, Nestlé, Unilever, Kraft, Shell, Diageo, Pfizer and Kimberly-Clark.

JWT's overall performance shows considerable vitality in today's business climate. We've kept resources in place, added new capabilities and kept lay-offs well below other large companies in order to grow when better times come.

We held fast to a key priority: understanding our clients' businesses and helping them to grow in difficult times with great ideas that add to their marketplace advantage. We made significant contributions to many businesses. A few examples: Smirnoff Ice's No.1 sales rank; the launch of Listerine PocketPaks; helping the RAF and US Marines meet their recruitment goals; the continued success of the Diamond Trading Company's new products; communicating Ford's transformation, led by Bill Ford, named the most popular auto advertising by *USA TODAY*. Creativity – the kind that clients alone cannot provide for themselves – will be our laser-like focus going forward.

We continued to raise our game by putting in place and promoting a significant number of highly-talented people across every department and geography, adding to our considerable intellectual capital. We appointed new global business directors on 10 of our top 20 accounts and five new executive creative directors in North America alone.

JWT made progress in delivering integrated marketing solutions for our clients across the media spectrum: digital@jwt, our full-service interactive arm; Connect, our direct response company and JWT Specialized Communications, our recruitment and employee communications firm, all continued to expand worldwide.

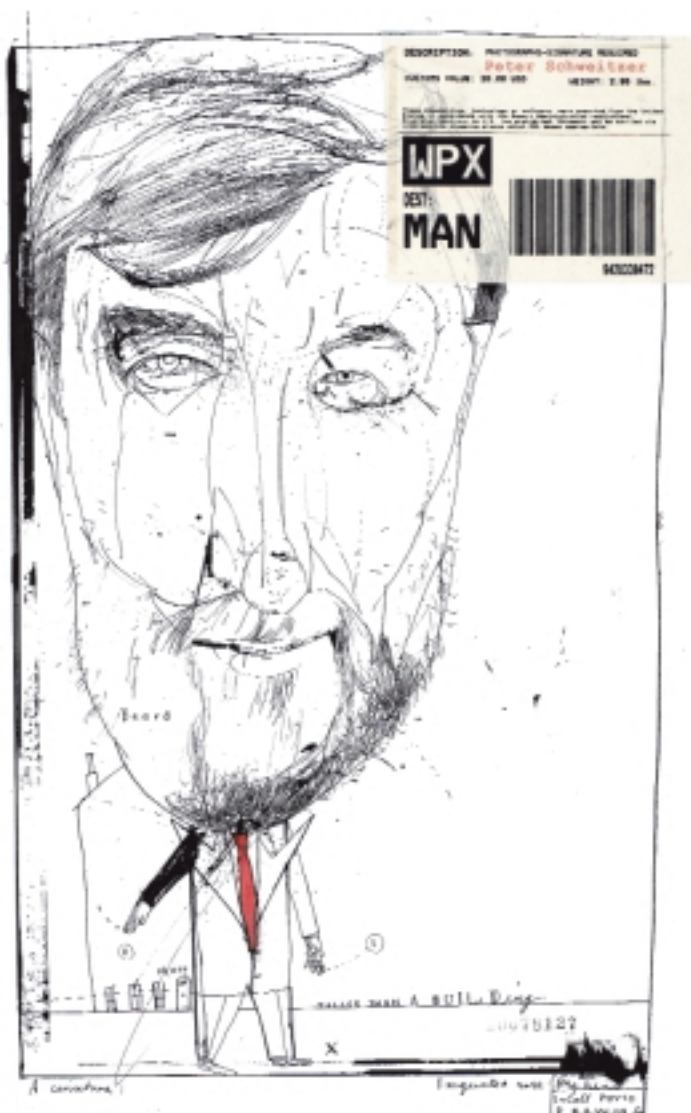
We began 2002 as *Adweek's Eastern Agency of the Year* in the US and ended it as *Media magazine's Agency of the Year* in Asia Pacific. We celebrated what *Campaign* magazine called the longest continuous client

partnership in history by marking 100 years as Unilever's agency of record; 40 years with Pfizer/Warner-Lambert and 60 years with Ford in 2003. We raised our creative profile, winning prestigious global, regional and national awards.

At a time when headlines talk about our industry's retrenchment and mis-steps, we are in the midst of a renewal, gathering strength as we look to our 140th anniversary in 2004.

I want to thank the people of J. Walter Thompson for what they have done to move our clients and our company forward in a year heavy on challenges and light on financial rewards. The world remains turbulent, but I'm confident we can grow this company and sharpen the creative edge that has made us great because of the solid foundation we built on in 2002. ■

Peter Schweitzer



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

Young & Rubicam Inc

In 2002, Young & Rubicam made progress in sharpening our network and delivering the integrated communication and marketing programs our clients want and need. Advances were made in the face of a difficult environment: global economies threatened to dip back into recession, international conflicts translated into consumer anxiety and clients remained cautious about increased spending. Yet, against this backdrop, we continued to increase margins across our lines of business, even as revenue for the group remained flat.

The singularity of the Young & Rubicam Inc brand lies in its ability to cohesively match client needs with powerful combinations of geography and discipline. Two years ago, we began to enhance the relationship between Y&R Advertising and Wunderman by creating the Y&R/Wunderman Alliance. In 2002, we tailored this strategy for our Europe and Middle East region. William Eccleshare joined us as Chairman and CEO of the Y&R/Wunderman Alliance in EMEA. We introduced the Alliance structure into some local markets in Europe, including Italy and Germany, and installed new leadership there. We revitalized our Australia/New Zealand Alliance operations with the new leadership of Hamish McLennan, and put an Alliance structure in place in Mexico.

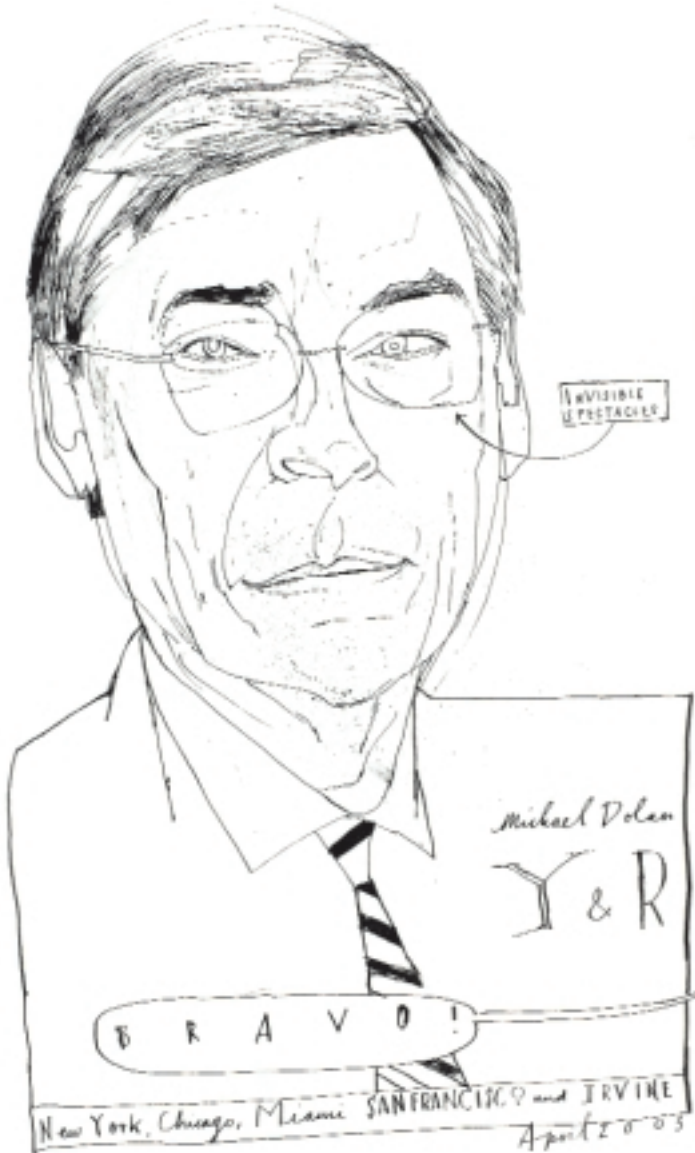
Our ability to deliver integrated programs paid off in new business. Despite the market, Young & Rubicam Inc won several large integrated accounts over the course of the year, including Aventis and Ford's Land Rover in the US. The banner headline, of course, was the ChevronTexaco account, a historic global consolidation in which Young & Rubicam Inc was named global communications partner.

Significantly, across all the Y&R companies, we created a closer, working network through technology investment, research initiatives, professional training, co-locations of agencies and stronger ties with WPP. At the same time, each of our partner companies continued to advance their individual discipline.

Y&R Advertising

For Y&R Advertising, our largest line of business, 2002 was a year of strengthening. Leadership. Critical markets. Client relationships. Creative product. The agency focused on its core business – servicing clients and producing great work.

Establishing strong global leadership for the company was a key initiative in 2002. During the year, Y&R Advertising established the Advertising Global Leadership Council, a group of 34 top managers from all over the network. The group is charged with cutting across all organizational and geographic lines on behalf of clients.



Michael Dolan
Chairman and chief executive officer
Young & Rubicam Inc

We brought in great new talent. Key appointments in critical European markets, including Stockholm and Zurich, have fortified the network immensely. The EMEA offices reported more than 200 account gains for the year, among them the global assignment for Glenlivet whisky from Y&R France and the Carlsberg sports sponsorship, won by RKCR/Y&R in London.

In the US, Y&R successfully launched new products for Dr Pepper/7 UP, Sears, Mattel and Ford in 2002. Y&R Irvine was the major beneficiary of a shoot-out to consolidate the Boys Division at Mattel. Canada had the largest account gain in its market and the agency is revitalized and re-energized under new leadership.

A renewed focus on the creative product has been recognized in the creative competition circuit. Work produced for Computer Associates and Land Rover was among the most awarded advertising campaigns of the

year. CA won an Emmy nomination from the Television Academy of Arts and Sciences. Work by RKCR/Y&R and Y&R Madrid for Land Rover garnered awards at all the major shows including Silver Lions at Cannes.

The multicultural agencies Bravo, Kang & Lee and Mosaica managed to post double-digit revenue growth for the year. The Bravo Group maintained its lead position in the US Hispanic market, with solid growth fuelled by top clients as well as new business from Del Monte Foods, Nestlé, Kraft and Mazda. Kang & Lee came out of the year as the leading Asian agency in the US and Mosaica had a solid growth year, as well.

The Banner Corporation performed well considering the difficult environment. New business was strong, the year-end win of Hewlett-Packard was a major highlight, and there was significant growth in such operating areas as interactive, events and outsourcing.

The Partners maintained its outstanding creative reputation by being named by *DesignWeek* as the UK's *Top Identity Consultancy* and, for the 16th successive year, the *No. 1 Creative Agency*. Its reputation for taking creativity to major international businesses was enhanced by its appointment by Ford North America to redesign the famous Blue Oval.

Wunderman

Thanks to strong global leadership and exceptional teamwork, Wunderman faced down declining revenues and significantly increased both its margins and profits for the year.

Increasingly, Wunderman's clients look for help across all parts of the marketing value chain. Significant expansion across data, direct, interactive, media, promotions and events came from Ford, Citibank, Telefonica and Sears. Wunderman won business from Cisco, Pfizer and First Quench. Innovative partnering resulted in stronger business propositions: The teaming up of Sudler & Hennessy and Wunderman, for example, drove pharmaceutical category expansion, including the additions of AstraZeneca and Biogen.

Data services, from database architecture to analytics, were an important growth area. Wunderman's KnowledgeBase Marketing subsidiary captured new business from Marsh Affinity Group Services, Wireless Retail and Primary Payment Systems. And Wunderman's renewed commitment to data-powered customer insights produced two groundbreaking research initiatives: The Wunderman Brand Experience Scorecard™ and Digital Neighborhoods™.

The Wunderman team's quest for creative excellence was realized at the Cannes International Advertising Festival when the prestigious Grand Prix was awarded to Wunderman at the inaugural Lions Direct competition. In 2002, Wunderman agencies around the world were recognized with over 150 awards.

Burson-Marsteller

Facing the worldwide economic downturn, 2002 was a year of challenge, but also of great achievement for Burson-Marsteller. As one of the leading global public relations and public affairs firms, the group's commitment to excellence led to a number of high-profile new business wins, new assignments, added capabilities, and thought-leadership initiatives.

With a clear vision and a strategic platform of knowledge and integration, highlights for Burson-Marsteller during 2002 were many. Among them, Burson-Marsteller deepened its integrated relationships with other Y&R Inc companies on behalf of clients such as the US Treasury, Aventis, GNC, Ford, Lincoln-Mercury, Sony, Altria Group and Accenture. Burson-Marsteller also won new assignments for some existing clients, including Merrill Lynch, SAP, GlaxoSmithKline, US Postal Service and AstraZeneca. Burson-Marsteller also won a number of the relatively few large new business opportunities in the industry, partnering with other WPP companies.

The public relations firm continued its focus on people and training with a newly designed Burson-Marsteller University. The firm developed new disciplines, including CEO Navigator (based on Burson-Marsteller's award-winning study that examines corporate and CEO reputation), Ethical and Social Responsibility, MindStyle, and US Hispanic. Burson-Marsteller also expanded its healthcare and technology capabilities around the world.

Finally, in March, we learned that *PR Week* magazine named Burson-Marsteller *Large PR Agency of the Year 2003*.

Specialized public relations companies

Cohn & Wolfe, an international PR agency, brought in new leadership in 2002 to focus its offering on marketing-related public relations for clients such as Hilton, Aventis, Smuckers, Danone, Visa, among others. The agency, known for its creative programs, garnered a number of awards this year, including a spot on the prestigious *New York Times* ranking of *Best Ideas of 2002*.

Robinson Lerer & Montgomery, a New York-based public relations company, continued to provide the senior management of US- and overseas-based corporations with strategic communications services in a wide range of practice areas, including crisis management, regulatory and governance issues, mergers and acquisitions, bankruptcies and long-term corporate positioning campaigns. In a challenging year, Robinson Lerer & Montgomery turned in excellent financial results.

Landor

In 2002, Landor added to its more than 60 years of brand strategy and design expertise a number of high-profile launches around the world, including: Seagate, Wrigley's Spearmint and Wrigley's Doublemint, San Francisco Opera, Xiameter, Panasonic, Altoids, Pepsi, NCAA, the Salt Lake Olympics and the USOC in the US; Walkers Sensations, Belgacom, Element Six, Disney in Europe; Dubai Bank in the Middle East; and Norinco, Bank Danamon, Promina, Kellogg's and Japan Air Lines in Asia Pacific.

Landor developed work for new clients including: Baileys, The Glenlivet, Orangina, BFGoodrich, Gulf Air and S.T. duPont in Europe; Brand Jordan in the Middle East; and the Japan Post in Asia Pacific. Landor also opened an office in Shanghai to better service its growing client needs there.

In 2002, Landor received recognition by *Global Finance* magazine as *The World's Best Marketing/ Branding Consultancy*.

Sudler & Hennessey

For Sudler & Hennessey, 2002 proved to be a year of continued growth for the healthcare agency, despite economic uncertainties. And in a time of increased global tensions, the various international offices of Sudler & Hennessey teamed up more than ever to deliver strategic and creative solutions for its clients.

From its beginnings as a graphic design shop over 60 years ago, Sudler & Hennessey now enjoys the role of one of the largest, most well-established global healthcare communications networks. It has the ability to deliver perfectly executed global branding, promotion and education for the healthcare industry.

The network offices of Sudler & Hennessey were an integral part of a number of key US and global drug launches in 2002, including Viread, Gilead's new HIV drug; Lexapro, the new antidepressant from Forest Laboratories; NovoLog, Novo Nordisk's insulin product, and Ezetrol, the hypercholesterolemia product co-marketed by Merck and Schering.

In addition, Sudler & Hennessey offices were responsible for a number of major award-winning campaigns; in healthcare promotion for Pfizer, Roche, Axcan, Cordis, a division of Johnson & Johnson; for packaged goods and food groups such as the Australian Meat & Livestock corporation; and for social marketing efforts from the Italian Ministry of Health, the German Federal Authority on Eating Disorders and the Tuscany Regional Health Ministry. ■

Michael Dolan



Andy Berlin
Co-chief executive officer
Red Cell

Red Cell

In contrast to continuing worldwide economic sluggishness, 2002 proved to be a year of rapid change and development for WPP's youngest network.

In only its second year of life, our thriving fledgling added two accomplished and award-winning offices through acquisition: the premium and luxury goods-focused agency Les Ouvriers Du Paradis in Paris, and the international consumer insight and research consultancy, Headlight Vision, followed more recently by *Campaign* magazine's *Agency of the Decade* HHCL & Partners in London.

In Asia we strengthened and deepened our capabilities by further consolidating our network relationship with the Batey Group, and on the Indian subcontinent with a new relationship with the exciting agency Equus/Red Cell.

On the client front, Red Cell secured massive new accounts in the US as Berlin Cameron/Red Cell won the world's most famous brand – Coca-Cola Classic; the international roll-out assignment for Nestlé's Golden Cat Division, and we also defended successfully the pan-European Alfa Romeo account.

Throughout the year Red Cell undertook a series of key personnel and business focusing steps that further defined our signature market approach, placing a powerful combination of strategy and creativity at the forefront of our global management team. This critical axis of skills was the basis of every action taken from the time new management took charge in January.

A clear definition of the networks mission within the WPP portfolio was set out: to be the network defined by the quality of our product, rather than the scale of operations; to be defined by the scale of our talent rather than the number of our personnel; to be a network of diverse and cutting-edge creative agencies in critical commercial centres but globally bound by common values and beliefs in the power of creativity to reshape markets and by our ability to create multinational communications solutions that leverage global consumer insights; to be a network designed to attract client 'restless leaders' – those clients desirous of change, outstanding creativity and a greater return on every dollar invested – clients willing to challenge normative behaviour, incumbency and the status quo; to be, by virtue of this approach, a new network design for the future of marketing.

Over the course of the year we assembled a global HQ team in London with outstanding professionals, including Nicky Buss from McKinsey as global director of strategic planning. These additions as well as others put strategic communications skills at the hub of all of our development.

Investments in knowledge and technology continued in the form of cutting-edge database capabilities and the innovative use of internet-based platforms for collaboration and global sourcing of ideas for clients. At the same time there was a dramatic upgrade in the quality of creative and strategic leadership in key markets: new strategic planning directors were introduced worldwide.

In Italy, Pino Rozzi and Roberto Battaglia, one of the finest creative teams around, joined from BBDO Milan as executive creative directors for Red Cell in Italy and successfully developed the new global campaign for Alfa Romeo.

All the developments of 2002 were aimed at empowering us to “punch above our weight”, to take on and beat the best creative shops in key markets, whilst also being able to compete effectively against traditional networks many times our size... thus providing an alternative to the franchise model of network via a radical new model, a Bauhaus-like collaboration of extraordinary talents.

As a result of the work completed in 2002, Red Cell Network is today poised for explosive growth, with world-renowned creative strength in New York, London, Continental Europe, India, Asia and beyond, with young and aggressively entrepreneurial operations in key markets, with a vigorous, truly global management team, and with a differentiated network culture and philosophy dedicated to serving the needs of blue-chip clients.

We look forward to an even more dynamic 2003. ■

Andy Berlin
Lee Daley



Lee Daley
Co-chief executive officer
Red Cell



Irwin Gotlieb
Chairman and chief executive officer
MindShare

Media investment management

MindShare

For MindShare, 2002 was another excellent year highlighted by the achievement of company and industry milestones and growth. These were major accomplishments in the difficult operating environment characterizing last year.

We celebrated our fifth birthday. We celebrated being on the receiving end of the largest-ever global media account win. We celebrated another big increase in our market share. In short, we celebrated a very successful year.

Our competitive market continued its rapid pace of change. Media ownership continued to consolidate into fewer, bigger blocks but not always with success. Some of our partners on the supply side wrestled with the twin challenges of consolidating all their assets at the same time as modernizing their ambitions and products. They faced these challenges at a time of little or no revenue growth, as advertisers continued to be cautious in terms of spending.

On the agency side we also saw further consolidations as the parent companies started to make sense of their media specialists. When MindShare started, we assumed that there would be no more than a handful of very good global media players by the middle of this decade. This is proving accurate. Of course there will be a collection of other media shops with low volumes or regional disparities. But Media investment management is driven largely by volume. Volume allows us to do everything else that we do to deliver outstanding return on investment for our clients.

Our size becomes an even more potent asset as we begin to link our volume with that of our sister agency, Mediaedge:cia. In most markets around the world we will be able to secure more competitive advantage for our clients through this collaboration.

Using this growing volume as a base we continued to add to our breadth of services in many markets.

For example we launched the WOW Factory as our non-traditional specialist in the US and continued to invest in BroadMind (associative marketing) and ATG (modeling and econometrics) around the world. Accountability and return on investment measures continue to be at the heart of what we do and we will continue to invest in them.

In 2002, '3D' became the biggest proprietary media research study in the world and is now available in 27 countries. It gives our clients wonderful insights into their brands by fusing data from brand strength, media consumption and segmentation studies. This kind of research study helps to move media planning much higher up the marketing value chain and gives our clients genuine competitive advantage.

This great scale and scope of offering led to a record number of new business wins in 2002. The global Gillette account alone represented an estimated \$600 million of new business, making it the largest account move of the year and an affirmation of our

global strategy as a Media investment management network. Other new business highlights included Vodafone in Italy, Novartis and 20th Century Fox in the US, Walmex in Mexico, GSK in China, OSKAR in the Czech Republic, Reliance in India, Heineken in the UK, and Cisco worldwide.

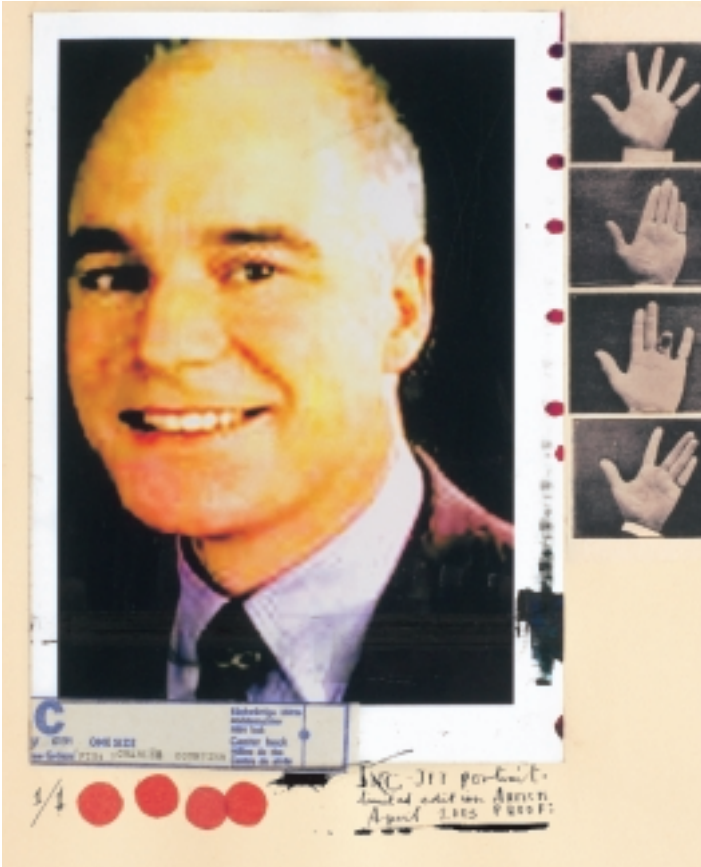
Recognition and thanks for this success must go to all of the "purple people" who work at MindShare and to our clients and partners around the world.

Looking forward we see no reason to be any less confident about the next five years than about the first five. MindShare's Media investment management approach combined with its leading-edge analytics, strategy development, vast negotiating power and creativity will ideally position us to exploit the potential opportunities in the media landscape. We will thrive on the challenge. And as we continue to be successful then we will continue to deliver on our promise. ■

Irwin Gotlieb
Dominic Proctor



Dominic Proctor
Chief operating officer
MindShare



Charles Courtier
Executive chairman
Mediaedge:cia

Mediaedge:cia

The year 2002 was Mediaedge:cia's first as a fully integrated company. It was formed following WPP's acquisition of Tempus Group plc at the end of 2001 and the subsequent merger of its core brand CIA with The Media Edge. Despite a depressed economic backdrop, the organisation responded magnificently to the challenge of restructuring and re-launching. This was a complex merger and the fact that it was executed so effectively and quickly is testament to the commitment of our network to our company's long-term success.

In addition to the creation of a new brand and visual identity, we very quickly established our differentiating vision for the future: to become the first true global practitioners of "insightful and accountable communications planning and implementation".

This positions us for success in an environment in which clients are confronted by more sophisticated and media-literate consumers. It recognises that brands need to connect with consumers through a broad range of channels, rather than simply vast quantities of mass communication. We developed a proprietary operating system: *Navigator*, to drive better understanding of the attitudes and behaviours of consumers and work out the best way to connect them with client brands.

MediaLab, our R&D division, played a key role in this process, quickly assimilating the best of the tools of the two former agencies, redesigning and repackaging them in support of the *Navigator* operating system. We now have a formidable suite of software-enabled tools including a top level suite of consultancy applications with investment and recall planning and modelling tools. These have been quickly embraced by our network: some 175 offices in 80 countries, 4,000 people in all.

Across 2002 we have developed work for our clients of which we are very proud. We have encouraged and incentivised our network to put our new vision and resource into practice bringing its values to life through the work we do for our clients via an internal competition "i"dea, which celebrates the very best of our teams' thinking. The inaugural competition was won by our South African office.

In 2002 our estimated new business wins totalled in excess of \$1 billion, including key international wins such as: ChevronTexaco, Reebok, Sony Ericsson, Novell, United Airlines, DHL, NEC and Schick Wilkinson.

At the end of 2002 WPP acquired Media Club SpA – Italy's largest independent media communication specialist, which operates as part of the Mediaedge:cia group, placing us at No.1 in this important market.

Our digital operations, Outrider and The Digital Edge, continue to be successful. We have added new skills in the form of search marketing in North America

and a greater degree of online and offline integration around the world. We have added significant new business from Sears, Nestlé and Reebok.

OHAL had a memorable 2002, in its thirtieth year of being the pre-eminent econometric modelling group. A wholly-owned Mediaedge:cia group company, OHAL's expertise has complemented our working relationship with clients such as Colgate and Danone by providing advertising accountability, return on investment and sales effectiveness planning. Their recently launched New York office has been successful in building new business partnerships with Warner Home Video and Payless ShoeSource.

Total Sponsorship, our group company specialising in sponsorship strategy development, implementation and execution, has had an excellent year. In particular they have helped drive Visa's development of their Olympic programme and other sponsorship properties, and have secured additional business with Norwich Union.

We continue to broaden our capabilities and offer with an important new collaboration with Wunderman. This connects Mediaedge:cia's media communication capabilities with those of Wunderman in direct response and consumer data analysis. This new partnership will allow us to offer our clients three powerful competitive advantages: refined media targeting and segmentation, execution of cost-efficient customer acquisition strategies and combined response analysis. Our collaboration will create a strong partnership with expertise across general and direct media combined with direct mail, direct response television, and customer relationship marketing.

In the US, we have made an important investment in The Leverage Group: a strategic marketing and promotion consulting firm. This is a significant step for us into the entertainment marketing arena. The group specialises in building strategic alliances and partnerships between companies to create joint marketing campaigns that go beyond the traditional media-based marketing programs. We will work with them to generate value from integrated communications in both the entertainment and cause-related fields.

Collaboration with our sister company MindShare, allows us to maximise the value and synergies of the total media volume of WPP for the benefit of all our clients. Our collective influence in the world's media marketplace has never been greater and our power will bear significant fruit in 2003.

The moves we have made not only strengthen us, but support our 'Well connected' claim as we optimise the connections between brands and consumers to bring measurable success to our clients' business.

We ended 2002 a far stronger company than when the year started and look forward to 2003 with all the ingredients in place for even greater successes: our outlook is very optimistic despite the prevailing uncertainties of the economy. ■

Charles Courtier
Mainardo de Nardis



Mainardo de Nardis
Chief executive officer
Mediaedge:cia

Information, insight & consultancy

The Kantar Group

It was a challenging year for Kantar with organic revenue growth slowing substantially during the year and margins falling by nearly three percentage points. Whilst the overall economic climate was a factor we must also recognise that we contributed to our own problems. The over-expansion at Center Partners in 2000-2001 left us with over-capacity as demand slowed while Research International paid the price for being the market leader in a number of high fixed-cost labour markets and being unable to cut costs appropriately.

That said, we also had a number of remarkable brand and financial success stories. Millward Brown cemented its position as a world leader in advertising copy testing and tracking, and grew its revenues in double digits; IMRB reinforced its position as the dominant player in the growing Indian market; Lightspeed (our internet panel business) doubled its revenues as clients finally began to see the benefits in terms of speed and cost of new technology platforms; Management Ventures saw its syndicated services grow by over 20% as clients hungered for its deep understanding of retailer strategies; and Fusion5 saw its unique blend of insight and episodic marketing plans help drive revenue growth for their clients and themselves.

Towards the end of the year, we took the decision to concentrate all of WPP's Information, insight & consultancy businesses within Kantar – a structural change which will enable us to address a wider range of client issues in a more holistic way.

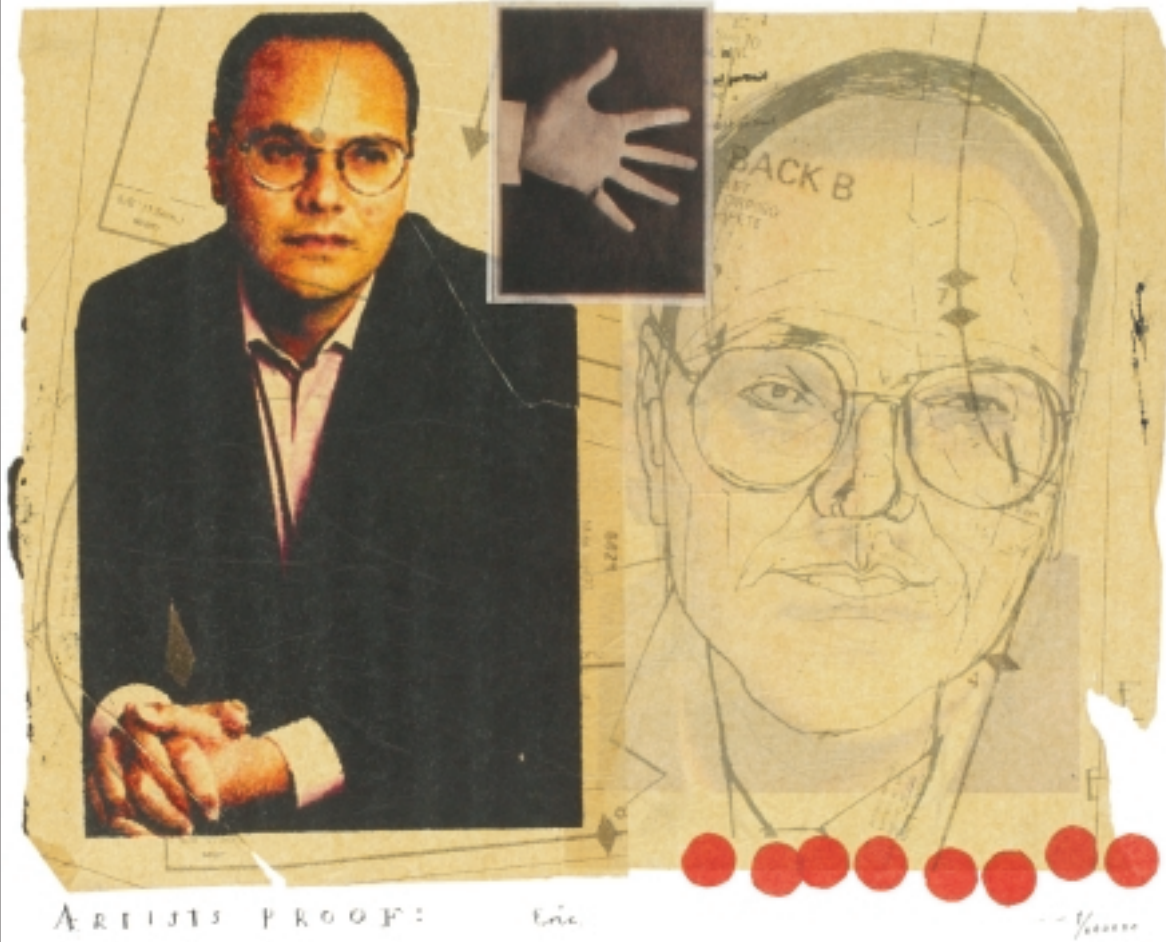
Beyond that, in many ways we have ended the year considerably stronger:

- Our syndicated services have expanded their geographical reach and quality. KMR's Target Group Index (TGI) – a single source study combining attitudes, consumption and media habits – now spans 49 markets. In addition and following the merger with MB Group in 2001, the fruits of the move are beginning to be seen with the creation of a service linking TGI with Millward Brown's leading Advanced Tracking Product (ATP). Management Ventures has established itself as the largest retail research organisation in the world, with research being complemented by training and programs for over 4,000 clients annually – and has now established a presence in Europe. And an investigation into global brands using Research International's proprietary research tool, Research International Observer (RIO), has been well received by clients.
- Our panel activities have also multiplied. Lightspeed has rolled out consumer online panels in the US (now at over 750,000 households), the UK, France, The Netherlands, Germany as well as specialist

healthcare, financial services and automotive panels. Ziment's physician panel grew to over 30,000 in the US and has been augmented by pharmacist and nurses panels in the US with a European panel launch imminent. IMRB was awarded the India Household Panel, with 70,000 participants in over 150 towns and 700 villages throughout India. All of these panels are facilitating richer insights and a more holistic view of attitudes and behaviour – often at lower cost, always in substantially less time.

- We have accelerated our attempts to cut the costs of, and speed up, the process of data collection, the net result being clients beginning to get the same services as they were three years ago but 10% cheaper. Millward Brown has led the way, moving many of its phone centres from the US to Canada, outsourcing aspects of data processing to India and pioneering multi-platform data collection.
 - Our footprint has grown. Millward Brown has developed a strong qualitative network with the acquisitions of Greenfield in the US, MFR in France and Firefly in Thailand; Glendinning has opened offices in Australia, Mexico and the US; our TAM (TV audience measurement) footprint has expanded; BPRI continues to expand on the back of global work for Accenture (and for whose success they were awarded the prestigious Queen's Award for Enterprise); icon brand navigation has continued to take its successful methodologies and approaches into new markets such as India, Italy and the US; and The Henley Centre has begun the process of developing its insight panel around the world.
 - And most importantly we have refocused ourselves on securing the best talent to achieve our mission of delivering information and insights to clients and helping them translate those insights into action. We have already seen the benefits of this sharper focus as Research International has restructured a number of its operations and enhanced its talent pool. Our 'insight into action' philosophy has been illustrated by the work of Fusion5 in helping launch Vanilla Coke and Smirnoff Ice Triple Black in the US, by Added Value's work in developing Twisted Jeans and other innovations for Levi Strauss & Co and by the success which Glendinning has had with clients such as Kimberly-Clark in driving their business through trade channels.
- The quality of our work and the range of our offer is unparalleled, but we need to do more. In the future, we will continue to cut fixed costs, enhance our talent base and accelerate our R&D program. Some clients are already seeing the benefits in terms of lower costs, research and insights which are better and more timely aids to decision-making and programs which drive brand growth. Our aim in 2003 must be to make that the norm across all of our clients. ■

Eric Salama



Eric Salama
Chairman and chief executive officer
The Kantar Group

Public relations & public affairs

Overview

WPP's superb portfolio of public relations and public affairs businesses continues to adapt to a rapidly changing market, and a decrease in worldwide demand for public relations services. The 1% increase in margin in 2002 in the face of diminishing revenues reflects careful management and positions the businesses to move towards the stated goal of an average of 15% margins as trading conditions improve.

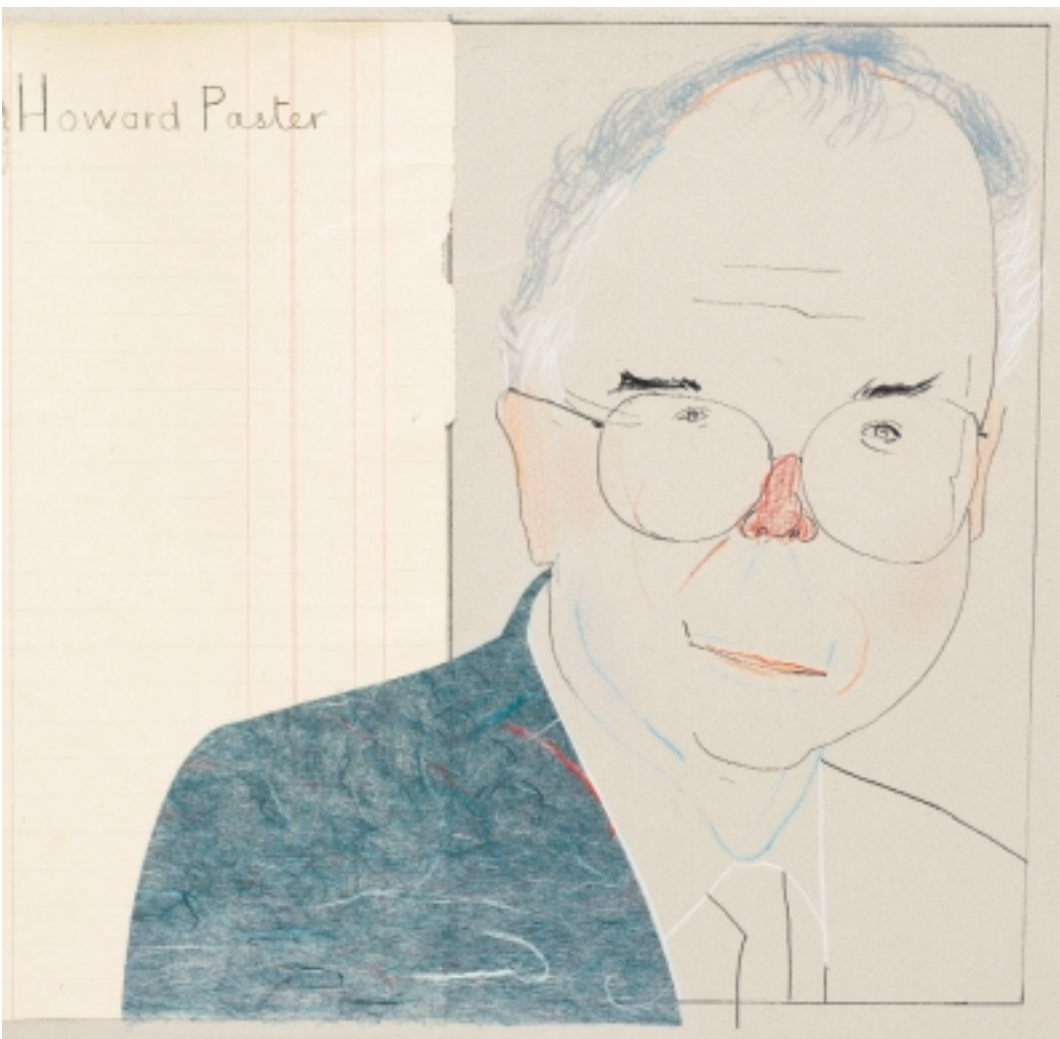
Certain of the single office operations, including Robinson Lerer & Montgomery (part of the Y&R group discussed on page 27) in New York, Finsbury in London, and Y&R's BKSJ in Washington did especially well in 2002, as did Penn, Schoen and Berland with offices in New York and Washington. Among the larger brands, Burson-Marsteller (like Robinson Lerer & Montgomery part of the Y&R group) and Hill & Knowlton shared in the largest PR contract awarded in 2002 – the global work for Hewlett-Packard. These two WPP agencies were among three agencies to emerge victorious from a carefully planned and difficult competition conducted by HP.

All of the firms have recognised that client demands, shrinking budgets and strong competition will require going to market with increased intensity, discrete offerings to meet specific client needs, and the highest level of client service. Retention of their largest clients by Burson-Marsteller, H&K, Ogilvy PR and Cohn & Wolfe indicates the firms are meeting client expectations. There are a number of new initiatives in the Group, including the move by Direct Impact, a Burson-Marsteller company, to take its public affairs grassroots capability into grassroots marketing.

Operating companies in the public relations/public affairs group within WPP achieved new levels of co-operation on shared clients in 2002, even while competing in the pursuit of new business. Whilst keeping the brands independent and free to compete, WPP also seeks opportunities to leverage the breadth and quality of its offerings in the category through joint pitching, cross selling and the delivery of specialised solutions to client needs.

For 2003 the Public relations & public affairs businesses will seek to protect, and ultimately to increase, market share while achieving improved margins. ■

Howard Paster



Howard Paster
Executive vice president, WPP
Public relations & public affairs

Hill & Knowlton

Hill & Knowlton (H&K), named *Agency of the Year 2001* by the specialist magazine *The Holmes Report*, celebrated its seventy-fifth anniversary in a difficult year for the public relations and public affairs profession. Despite the economic downturn in 2002, H&K expanded its roster of blue-chip clients, put into place a new CEO, and re-launched its new brand identity, all setting the stage for a strong 2003.

Paul Taaffe, who had served as president of the firm, succeeded Howard Paster as chairman and CEO in August. Taaffe, who joined the firm in 1992, was already deeply familiar with the firm's worldwide clients, capabilities and resources. Paster, who moved up to the Group level as executive vice president, was responsible for restoring the integrity and good name of H&K in his eight plus years with the firm, rendering it once again a truly global communications entity.

Quality and value remained the firm's top priorities with all leading clients committed to an H&K partnership throughout 2002. The firm continued its relationships with clients such as Nestlé, Motorola, Procter & Gamble, Sony, and Ford. Many clients expanded their engagements with H&K during the year, including Johnson & Johnson, StoraEnso, Pacific Gas & Electric, and Boots Healthcare International/Crookes. In addition, Kellogg's awarded new business to H&K US, Boeing added new assignments, and American Express broadened its use of H&K. H&K ran one of the world's biggest international sponsorships for UBS across 15 of its offices, which included the successful Swiss challenge for the America's Cup. Underscoring its philosophy of outstanding client service, H&K named Harlan Teller to the newly created global position of chief client officer, responsible for enhancing client relationships and ensuring high-quality client service.

H&K's emphasis on top-quality work was underscored by the 50-plus industry awards it won worldwide, including *WPP Partnership Program Awards*. Additionally, MediCorp selected Hill & Knowlton Canada as one of the country's 100 best employers.

Hewlett-Packard and Nasscom became significant new members of the H&K family. Enron (under new management) and The Smithsonian Museum of the American Indian joined H&K US. SABIC, the Middle East's largest petrochemical company, selected H&K as its worldwide partner; H&K London introduced a new Listerine product into Europe; and H&K Germany celebrated the addition of easyJet to its roster.

The worldwide healthcare practice continued to grow in 2002, particularly in the pharma and life sciences industries. H&K also gained significant assignments from hospitals, managed-care and health insurance providers as well as consumer health brands. Major new clients include



Paul Taaffe
Chairman and chief executive officer
Hill & Knowlton

PharmaMar in five countries across Europe, Aventis, AstraZeneca, Cephalon, ExpressScripts (a pharmacy benefit manager), GlaxoSmithKline, and Merck.

Identifying and retaining talent, particularly senior-level professionals, was a major priority during the year, with Ellen Shedlarz joining the firm as chief talent officer. H&K US management changes included the appointment of MaryLee Sachs as president and CEO, Tom Hoog as chairman, and Marilyn Castaldi as general manager of the New York office. Europe's major regional appointments included Andrew Laurence

as chairman of European practices, Tarja Jussila as Helsinki's CEO and Asa Ragner as Sweden's CEO.

The firm expanded its reach in 2002, opening operations in Abu Dhabi, acquiring Gambit in Oslo, and acquiring Samcor in Miami. H&K Italy incorporated Contempora, one of the country's leading specialist public affairs agencies.

As a seasoned participant in corporate citizenship, H&K continued its philanthropic tradition by contributing to pro bono efforts worldwide and supported industry efforts through its founder's legacy, The John Hill Foundation. H&K began a partnership with Ashoka: Innovators for the Public, forming a global team that provides pro bono support to build awareness of Ashoka as a world leader in social entrepreneurship and that supports the Ashoka Fellows.

To underscore its commitment to the role Corporate Social Responsibility (CSR) plays in driving corporate reputation, H&K became the sole public relations firm sponsor of a research project run by noted author and theorist Don Tapscott. The project, *Transparency in the Networked Economy*, probed the role of CSR in a digital world, defined best practices in CSR management and aimed to develop ways to determine the return on investment in CSR programs.

H&K conducted its fourth annual Corporate Reputation Watch (CRW) survey of 800 senior executives, joining with *Chief Executive* magazine to ask senior managers in seven countries in Europe and North America about their perspectives on issues relating to corporations' reputations.

In a tough year, the firm reinvigorated its brand with a new look and new colors, underscoring its continued market leadership after 75 years of success. H&K undertook extensive research into its brand perception. WPP company, The Partners, provided the design standards and style guides, and Bisqit, H&K's London-based design arm, brought the new visual identity to life.

Hill & Knowlton celebrated a milestone in 2002: 75 years ago, John W. Hill opened the doors of the firm in 1927, in Cleveland, Ohio, before moving the headquarters in the early 1930s to New York where it remains to this day. Commemorating its diamond anniversary, the firm saluted Hill by publishing a booklet honoring his achievements, his writings and his leadership in communications.

"Public opinion is the greatest of all collective powers among people." – John Wiley Hill (1890-1977). ■

Paul Taaffe

Ogilvy Public Relations Worldwide

It was a turnaround year for Ogilvy PR in two significant ways. First, the agency finally saw a change in our financial performance. While 2002 was still a challenging year; our financial turnaround has put us in good position for modest growth in 2003. Second, the change in senior management is another turnaround that has made us a stronger, more cohesive unit.

Since it is the people that make Ogilvy PR what it is, first a word about the changes in senior management. In addition to a new CEO, other major changes included Paul Hicks becoming president of the Americas, Kym White taking the helm of our New York office, Rob Mathias returning to the US capital to head the Washington DC office, Tom Beall in the newly created position of chief talent officer, Steve Dahllof being named the head of creative strategies, Stephen Jones joining as head of our technology practice and Marcia Kean returning to become CEO of Feinstein Kean Healthcare, our biotechnology unit. Collectively, this stellar group has been with Ogilvy PR for more than 80 years.

After a challenging 2001, we saw an upswing in our 2002 finances. Because of key wins, strategic acquisitions and partnerships, we were able to make this dramatic turnaround in this difficult environment. While the economic landscape is still extremely soft, we have everything in place to excel in the marketplace when the outlook changes.

Key wins in 2002 included UPS (Asia), GSK/Bayer, NASDAQ, Uniden, Quicksilver, Nevada Department of Public Safety and the American Red Cross. We saw major wins across geographies and throughout all of our practice areas of marketing, health & medical, corporate, public affairs and technology.

This was a defining year for our network in the Asia Pacific Region. With acquisitions of PRAP in Japan and H-Line PR in China, the region is well positioned for growth. Not only is Ogilvy PR the largest public relations capability in China, but also the Asia Pacific region won the *PR Week Network of the Year Award*.

In the US, we created strong relationships with companies that are industry leaders, both within WPP and outside the company. In the fourth quarter of last year, Ogilvy PR announced a strategic alliance with the Dutko Group Companies, Washington's leading independent public policy management firm. The partnership brings together the global public affairs expertise of Ogilvy PR with the federal and state government affairs expertise of the Dutko Group.



Marcia Silverman
Chief executive officer
Ogilvy Public Relations
Worldwide

In 2002, we enlisted the best of the best in WPP to assemble the premier food-marketing group, called CONSUME™. CONSUME, which provides clients with expertise in food marketing, brand strategy and package design, public relations, retail strategy, market segment research and youth marketing, delivers these specialty resources to reach youth, ethnic groups and household decision-makers. CONSUME includes the experience and wisdom of Enterprise IG, The Food Group, The Geppetto Group, The Market Segment Group and The Store.

In addition to the partnerships and acquisitions that took place in 2002, we continued to work with Ogilvy & Mather on a number of projects. Most notable was winning a project for the American Red Cross with OgilvyOne and ethnic marketing specialist UniWorld. Together, we will provide integrated marketing services and support for the US Save A Life Tour 2003. Kicking off in May 2003, the tour will travel the US to educate and encourage Americans to help save lives through regular blood donation.

This past year provided us with challenges and change, but in the end we were successful because of our strong teams around the world working together. We enter 2003 cautiously optimistic and look forward to continued stability and growth, knowing that with our strong leadership in place, we are in the right position to compete for significant pieces of business. ■

Marcia Silverman

Branding & identity, Healthcare and Specialist communications

Overview

Overall performance was outstanding in Healthcare and mixed in Branding & identity and Specialist communications, reflecting the continued pressure clients faced in 2002 to reduce spending on special marketing projects. We used the opportunities presented by the downturn, however, to make continued progress in terms of our strategic goals, including:

- developing the independence of the strongest businesses;
- collaborating with the larger networks to further develop our integrated marketing and branding initiatives;
- creating businesses in new marketing disciplines through start-ups or acquisitions.

Some of the noteworthy events, initiatives and achievements in 2002 are summarised here.

Branding & identity

Enterprise IG

In a difficult business climate for corporate identity, Enterprise IG has nonetheless closed the year a stronger business through its ability to adapt itself to the changing marketplace and to keep client needs at the forefront of the business. Enterprise IG reinforced its worldwide position through the successful integration of BrownKSDP from the Tempus Group plc. This excellent strategic fit further strengthens the UK's overall consumer branding offer, opens up the French market, and provides market leadership in Africa and the Middle East. Enterprise IG now has over 600 employees in 23 offices worldwide.

Europe, Middle East & Africa

A new specialist practice area was formed to advise organisations on internal business and brand engagement. Three WPP companies, Enterprise IG, MCA Communicates and Added Value Internal Communication joined forces to create Enterprise IG Business and Brand Engagement – bringing together brand engagement and business change expertise.

Further extending geographical reach through a joint venture with JWT, Enterprise IG opened an office in Madrid enabling them to work more closely with Spanish clients, such as BBVA and Vodafone.

Major assignments won in 2002 include: BBVA (London and Madrid), Côte & Match (Paris), Masterfood brands (Hamburg and London), Vodafone (London, Ireland, Amsterdam and Cape Town), Norwegian Ministry of Defence (Oslo), Wrigley's (Hamburg and the US), First Bank Nigeria (Africa), Royal Mirage (Dubai), SG and Skandia (Stockholm).

Asia Pacific

Enterprise IG is one of Asia's largest brand consultancies and design networks, with nine offices across the region which were further expanded by winning new business from China Resources (China and Hong Kong), China Airlines (Taiwan), Unilever, Australian Magnesium and Sydney Opera House (Sydney), DTAC and Samart (Thailand), Four Seasons Hotels and Resorts and TVS (Singapore).

The Americas

Enterprise IG has further leveraged its proprietary "Brand Analytic" capabilities; major assignments won this year include DuPont (New York) and Del Monte (San Francisco). It is also expanding new offerings to encompass all brand touch points – significant wins include Fujifilm (San Francisco) and Lladro (via Walker Group/CNI).

By building deeper and longer-term relationships with clients, Enterprise IG has been able to provide the benefits of team stability and experience. Notable clients capitalising on these comprehensive capabilities include Holcim Ltd, and BlueCross/BlueShield of Florida.

The Brand Union

The Brand Union continued its focus on developing each of its businesses into a market leader. Highlights included:

Lambie-Nairn

In 2002 Lambie-Nairn grew its stable of international clients with major wins in the US, Middle East and Europe. Due to the US success in particular, a New York office was opened to better service existing clients and to develop new broadcast sector clients. Other key highlights include a number of awards such as a gold at Promax UK for their innovative identity for BBC Four.

Important projects launched in 2002 included O₂, BBC One, BBC Two, BBC Four, CBBC/CBeebies, Telenet, the Sci Fi Channel and also Discovery Kids. The new BBC Three identity was also created by Lambie-Nairn.

**Dave Allen**

Chief executive officer
Enterprise IG, Europe, Africa & Middle East
 and joint chief executive officer
The Brand Union

MJM

MJM has experienced strong growth throughout 2002 adding new capabilities – including an environmental and exhibit design group. These developments further strengthen MJM's position as a leader in face-to-face communications.

Built upon both the strength of MJM and event capabilities within the Wunderman network, The Event Union was formed for the creation and international delivery of live business meetings and consumer events. It brings together the knowledge and resources of four WPP companies – MJM Creative Services in New York, facts + fiction in Köln, MCA Live in London, and Pro Deo in Paris.

Addison

In 2002 Addison Corporate Marketing continued to build and define four distinct business units comprised of corporate reporting, corporate social responsibility consultancy, corporate advertising and corporate brand management. It also added to its blue-chip client base, which already includes AstraZeneca, Centrica, Cadbury Schweppes, Boots, EADS and Syngenta, by being appointed by British Land, Rexam, Siebel and Wincanton.

Warwicks UK

Warwicks UK focused working relationships with a number of new clients during the year, including Jomu Sportswear, Intelliswitch Electrical Products and the Sportizus mail order and retail chain. A significant Land Rover assignment was won in the latter half of the year, whilst Jaguar Cars continued to be a major client.

Oakley Young

Oakley Young, among the most consistent performers in providing in-store solutions over the last two years, has continued to win new clients, including Gossard, Interbrew and Raleigh. ■

Dave Allen
 Jim Johnson

**Jim Johnson**

Chief executive officer
Enterprise IG, Americas
 and joint chief executive officer
The Brand Union

Healthcare

CommonHealth

CommonHealth, one of the world's leading healthcare communications networks, had substantial growth on an already-significant base of business reflecting both the vitality of the pharmaceutical sector and CommonHealth's share growth in this growing sector. CommonHealth is stronger, healthier, more diversified, and even better prepared for the changing future than ever.

CommonHealth companies handle health-related brands in nearly every therapeutic category – from professional and consumer advertising to the more specialized fields of relationship marketing, research-based consulting and medical education. Through partnerships with sister WPP companies, the organization also offers clients expertise in public relations, brand identity and design, and experiential and ethnic marketing. CommonHealth's global capabilities are broadened through its partnership with the Ogilvy Healthcare Network, and the joint venture now has 21 offices in 18 countries.

CommonHealth's client base now comprises 14 of the top 15 pharmaceutical manufacturers in the world. As testament to client satisfaction and confidence in CommonHealth's capabilities, existing clients such as AstraZeneca, GlaxoSmithKline, Schering-Plough and Hoffman LaRoche assigned significant new business. CommonHealth continued in 2002 to help build billion-dollar brands like Avandia (GlaxoSmithKline), Listerine (Pfizer), Procrit (Ortho Biotech/J&J), and the Clarinex (*Direct-to-Consumer Brand of the Year*) franchise (Schering-Plough), a number of which are cross-company assignments within the CommonHealth network.

With the industry increasingly focused on complex technology-based healthcare therapies, diagnostics, tools and techniques, CommonHealth formed Carbon Healthcare, a start-up specifically created to address the burgeoning biotech and health technologies arenas.

CommonHealth was named an *Agency of the Year* finalist in 2002 by *Med Ad News*, a leading industry publication, and in 2003 was nominated by its peers for the magazine's *Most Admired Agency Award*. CommonHealth's consumer advertising business unit, The Quantum Group, was awarded the prestigious *DTC Agency of the Year* title by *DTC Perspectives*, another industry magazine. ■

Matt Giegerich



Matt Giegerich
President and chief executive officer
CommonHealth

Direct, promotion & relationship marketing**VML**

Kansas City-based VML continues to perform exceedingly well, achieving 15% revenue growth in 2002, a record-breaking year.

A unique approach to the marriage of technology and marketing resulted in VML being the first company in the world to successfully launch SAP Portal, which it implemented for Burger King through the Burger King Gateway. The Burger King Gateway allows not only employees to use the portal, but also partners, vendors and strategic suppliers.

Some of the notable new business highlights include VML's appointment as the North American Agency of Record for BP/Castrol, through a successful inter-agency collaboration with Ogilvy Primary Contact. VML was also awarded Agency of Record assignment for AMC Theatres, the first agency to achieve this status in the history of the 80-year-old worldwide leader in cinema entertainment.

VML's ability to collaborate across the network was further proven through its close and growing partnership with Y&R and Y&R 2.1 on the Colgate-Palmolive business. New business from existing relationships also proved fruitful in 2002; VML won significant new assignments from long-time clients Bayer, Sprint, Yellow Transportation and Hill's Pet Nutrition.

VML won several local and regional creative and marketing awards as well as *Best of Show* in the North American Agrimarketing Awards for the Bayer Pro Central online marketing campaign for Bayer Environmental Science.

EWA

The UK's bespoke communications specialist performed strongly in the year starting with a new business win – the adidas Consumer Care Centre. EWA was appointed to provide dedicated resources handling enquiries from adidas customers in the UK. The business also made considerable progress in the development and expansion of integrated best practice communication tools and services, including the launch of *Communique* – EWA's proprietary e-mail marketing campaign tool. Throughout the year *Communique* has been used by P&O Ferries as part of their marketing communications mix.

Mando Marketing

The UK's leading promotional risk insurance company had a strong year due to growth from key accounts, Rothmans and Diageo, and a major client win: Coca-Cola.

Specialist communications**Custom media**

Forward continued to perform strongly in 2002. Barclays was a major account win early in the year and the agency continued to develop its business with Tesco and Patek Philippe.

Spafax had a challenging year in 2002, largely because of the considerable difficulties experienced in the aviation sector. Nevertheless, the company was successful in winning the contract to provide Cathay Pacific with overall creative direction of its in-flight entertainment and for supplying movie content. Spafax were also awarded *Best In-flight Magazine* by the World Airline Entertainment Association for *enroute* (Air Canada).

Demographic marketing

The Geppetto Group, a WPP start-up, had another record year, partnering with Y&R to win global LEGO business and provided a necessary kid perspective to other clients including Frito Lay. They won several Mobius awards in the Children's division, including two first place statuettes for their work for Kids Foot Locker.

Sports marketing

PRISM strengthened its key below-the-line communications competencies in 2002. In sponsorship marketing, new business growth was fuelled by wins from Häagen-Dazs (North America), AMD (Germany) and Unilever's Flora brand (UK). Managed by PRISM for the ninth straight year, the pan-European Ford destination football campaign continued to deliver growth at the retail level. Their product launch capabilities attracted quality clients globally as PRISM secured substantial business from Nestlé (Australia), Shell (Europe) and Ford (US/Europe) for spearheading launches of important new products.

Perhaps the greatest achievements in 2002 came from PRISM's brand experience teams. For Land Rover, PRISM created the ultimate global adventure, the Land Rover G4 Challenge. This new event concept, involving all 12 of PRISM's international offices, has already provided substantial worldwide brand impact for Land Rover in the run-up to the spring 2003 event. On the sports PR front, PRISM added to its base of blue-chip clients by winning new business from Orange and Japan Tobacco International.

Global Sportnet, one of the leading sports marketing agencies in Europe, was acquired by WPP in January 2002. The focus of the company's activities lies in the acquisition and sale of international television



1/4 Lab-Jet Portrait and Mixed-Up Media April 2003:
ARTIST'S PROOF:

Laurence Mellman
Chief operating officer
International specialist
communications

and advertising rights in respect of football matches in the European club competitions, the European Championships and the World Cup. The company's portfolio comprises around 100 European football clubs and national federations, eg Inter Milan, Juventus, Lazio Benfica, PAOK Saloniki, Legia Warszawa. Since joining the Group, Global Sportnet has expanded its activities into sponsorship consulting and has successfully co-operated with other WPP companies to fulfil client needs in the area of sports sponsorship consulting. Furthermore, in 2002 Global Sportnet built up the new business arm of athlete representation with a focus on the transfer of South American football players to European top clubs, where Global Sportnet has already signed five top Argentinean players.

Media & production services

International Presentations reaffirmed its leading position in the roadshow industry by winning the mandate for AutoRoute du Sud de la France, the largest European IPO in 2002.

Metro Group established a highly sophisticated video restoration business which is now acknowledged as a European market leader, undertaking work that ranged from classic films of the 1940s to classic TV series of the 1980s. They also restored the historic 'Muchmore' footage of the assassination of John F. Kennedy for APTN. Metro company Clever Media scored a hat trick at the industry's *International Video Communications Association Awards*, including the *Grand Prix*.

Metro's expertise in Virtual Studio technology resulted in a number of high-profile projects, including the provision of a virtual studio to the Scottish Parliament, during its relocation in Aberdeen. In 2002, Metro also became a preferred supplier to BBC Resources, supplying broadcast equipment for the Commonwealth Games.

The Farm Group enjoyed another good year in 2002, winning the *Broadcast Post Production Company of the Year Award* and the No.1 spot in *Televisual* magazine's broadcast facility poll. Productions worked on by The Farm won Baftas, Emmys and Royal Television Society awards. Programs of note include *Band of Brothers* for HBO, *Pop Idols* for 19/Thames, the BBC *Great Britons* series and the Vera/Channel 4 *Rory Bremner* series. ■

Mary Ellen Howe
Laurence Mellman



Mary Ellen Howe
Chief financial officer,
North America
**Branding & identity, Healthcare
and Specialist communications**

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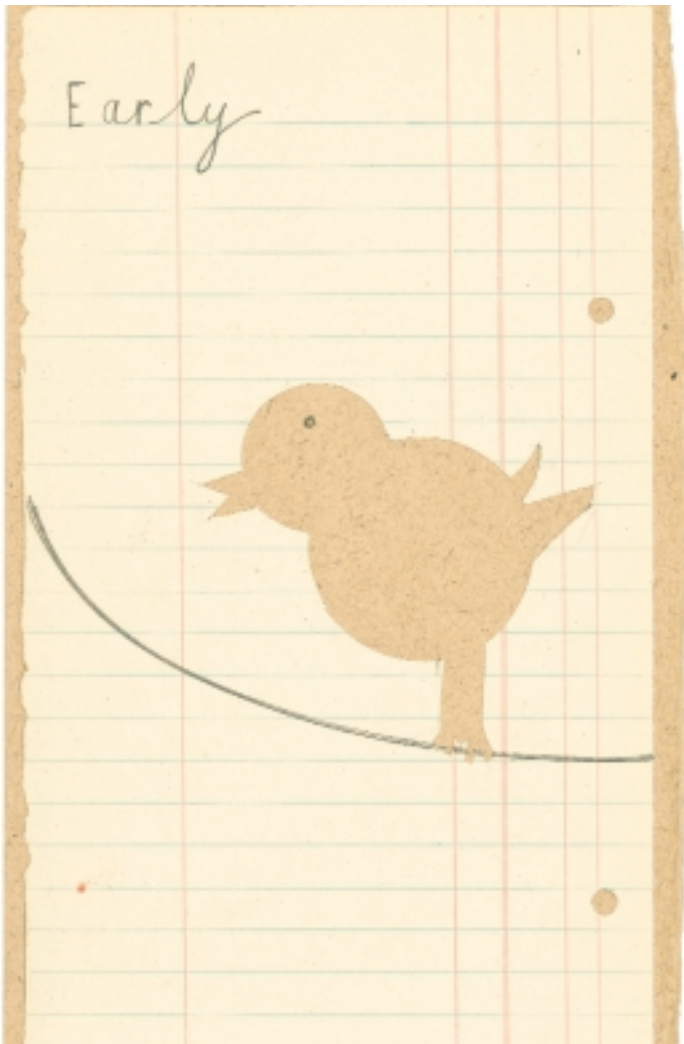




THE FUTURE

The Advertising and Marketing Services Industry: Short-Term Gloom, Long-Term Glory

WPP CEO Martin Sorrell reports



2001 and 2002 have been very difficult years for the advertising and marketing services industry. 2003 does not look much better – perhaps flat, perhaps up a bit. The first half of this article examines the trends – both within and beyond the advertising and marketing services industry – that have contributed to the state we find ourselves in today.

2004 looks better.

First, 2004 should benefit from the so-called quadrennial factors (US Presidential elections, Olympic Games, political advertising, European football championships). Secondly, I believe there are five key factors affecting our clients that offer clear opportunities for WPP companies. And 2004 may mark the point at which we begin to benefit once again from these factors.

- Globalisation or Americanisation
- Over-capacity and the shortage of human capital
- The web
- Internal communications
- Concentration of distribution

The second half of this article examines these five factors in some detail. I believe their effect on our industry will be such that advertising and marketing services as a proportion of gross national product will reach new highs at the top of the next cycle.

So, not good prospects in the short term, but significant growth in the long term.

The Advertising and Marketing Services Industry: Short-Term Gloom, Long-Term Glory

Key Trends That Shape The Industry Today

The advertising and marketing services industry

Worldwide advertising and marketing services expenditure totals about \$1 trillion, split between the two areas.

Advertising, which concentrates on traditional media such as television, radio, newspapers, magazines, outdoor and cinema has tended to grow well, but less strongly than marketing services, the latter more focused in less sophisticated, less developed, less global, so called below-the-line areas, such as Information, insight & consultancy, Public relations & public

affairs, Branding & identity, Healthcare and Specialist communications (including direct, interactive and internet communications).

The more rapid growth of these marketing services has been driven by the increasing cost of network television, as prices have risen faster than inflation, whilst audiences have fallen. This audience decline is a result of media fragmentation following the growth of cable and satellite; the proliferation of newspapers and magazines through cost-reducing technological developments; and by new technologies developing new media.

Worldwide communications services expenditure 2002 \$bn

	Advertising	Market research	Public relations & public affairs	Specialist communications	Total
US	148.8	6.8	2.4	406.6	564.6
UK	14.5	1.7	0.8	59.4	76.4
France	8.7	1.2	0.1	22.1	32.1
Germany	16.0	1.4	0.2	33.6	51.2
Japan	35.8	1.1	0.1	43.4	80.4
Rest of the world	88.0	4.2	0.1	138.3	230.6
Total	311.8	16.4	3.7	703.4	1,035.3

Sources: Zenith Media, ESOMAR, Veronis Suhler, Council of Public Relations, WPP estimates and various other trade sources

Advertising spending 1997-2006 \$m

Year	Television	Radio	Newspapers	Consumer magazines	Business-to-business magazines	Consumer internet	Yellow pages	Outdoor	Total
1997	42,755	13,491	46,295	9,821	10,029	906	11,355	4,047	138,699
1998	46,437	15,073	49,324	10,518	11,647	1,920	12,073	4,413	151,405
1999	49,370	16,930	52,187	11,465	12,696	4,620	12,850	4,832	164,950
2000	56,081	19,069	54,964	12,669	13,507	8,229	13,704	5,235	183,458
2001	53,879	17,892	50,728	11,883	10,848	7,253	14,430	5,193	172,106
2002	57,683	18,462	52,347	11,527	9,583	7,550	14,674	5,324	177,150
2003 ¹	61,069	19,413	55,698	11,873	10,055	7,850	15,109	5,443	186,510
2004 ¹	66,670	20,875	59,484	12,585	10,793	8,395	15,637	5,592	200,031
2005 ¹	70,048	22,344	63,807	13,403	11,415	8,868	16,272	5,773	211,930
2006 ¹	75,715	24,143	66,894	14,140	12,099	9,315	16,950	5,989	225,245

Source: Veronis Suhler

Growth in advertising spending 1997-2006 % growth

Year	Television	Radio	Newspapers	Consumer magazines	Business-to-business magazines	Consumer internet	Yellow pages	Outdoor	Total
1997	5.0	10.0	8.6	9.0	10.3	353.0	5.8	7.6	8.0
1998	8.6	11.7	6.5	7.1	16.1	111.9	6.3	9.0	9.2
1999	6.3	12.3	5.8	9.0	9.0	140.6	6.4	9.5	8.9
2000	13.6	12.6	5.3	10.5	6.4	78.1	6.6	8.3	11.2
2001	-3.9	-6.2	-7.7	-6.2	-19.7	-11.9	5.3	-0.8	-6.2
2002	7.1	3.2	3.2	-3.0	-11.7	4.1	1.7	2.5	2.9
2003 ¹	5.9	5.2	6.4	3.0	4.9	4.0	3.0	2.2	5.3
2004 ¹	9.2	7.5	6.8	6.0	7.3	6.9	3.5	2.7	7.2
2005 ¹	5.1	7.0	7.3	6.5	5.8	5.6	4.1	3.2	5.9
2006 ¹	8.1	8.1	4.8	5.5	6.0	5.0	4.2	3.7	6.3
Compound annual growth									
1996-2001	5.8	7.8	3.5	5.7	3.6	105.1	6.1	6.7	6.0
2001-2006	7.0	6.2	5.7	3.5	2.2	5.1	3.3	2.9	5.5

Source: Veronis Suhler

Notes

¹ Estimated

Top 10 countries ranked by 2001 advertising expenditures as a percentage of GDP

Country	%
Puerto Rico	4.11
Hong Kong	2.32
Hungary	1.79
Panama	1.49
Venezuela	1.46
Greece	1.44
US	1.40
Czech Republic	1.38
Poland	1.35
Colombia	1.30

Source: Zenith Media

Top 10 countries ranked by 2001 advertising expenditures per capita

Country	%
Hong Kong	567.0
US	497.3
Puerto Rico	450.6
Switzerland	341.8
Norway	318.7
Japan	291.4
Denmark	248.9
UK	245.1
Singapore	208.3
Austria	208.1

Source: Zenith Media

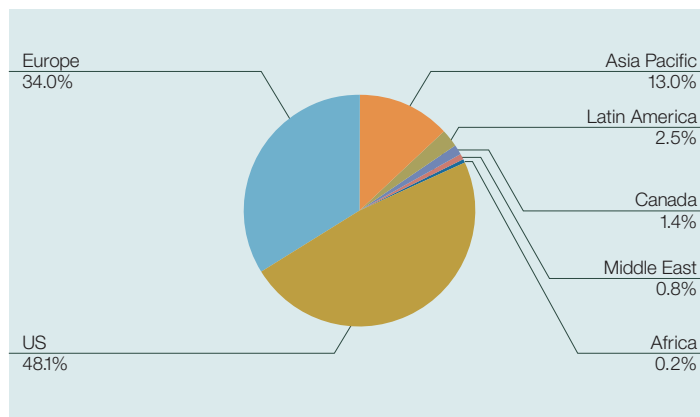
Similarly, the US has tended to account for approximately half of worldwide advertising and marketing services expenditure. Key markets outside the US have been Japan, the UK, France, Germany, Italy and Spain. However, Asia Pacific principally through China, South Korea and India, and Latin America through Mexico, Brazil and Argentina have become increasingly important.

As a result, markets outside the US are growing faster, as advertising and marketing services as a proportion of gross national product catches up to more mature market levels. Such growth has been primarily driven by the growth of free trade and the overseas expansion of multinational corporations.

WPP was founded some 17 years ago to capitalise on these two trends and provide co-ordinated advertising and marketing services throughout the world.

Top 100 advertisers spending by region

Region	Measured advertising expenditures			
	2001 \$m	2000 \$m	% change	% total
Africa	176	167	5	0.2
Asia Pacific	9,189	9,318	-1	13.0
Europe	24,093	23,631	2	34.0
Latin America	1,788	2,126	-16	2.5
Middle East	556	229	143	0.8
Canada	981	980	0	1.4
US	34,168	36,405	-6	48.1
Total worldwide	70,951	72,856	-3	100

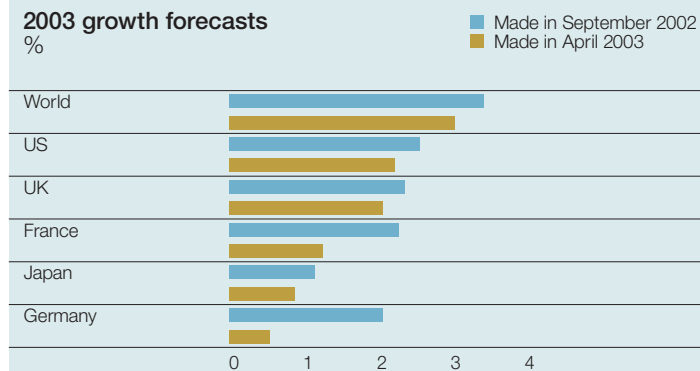


Source: Adage.com

Short-term gloom

After very strong, almost unprecedented, growth in the 1990s, culminating in 2000, when WPP grew by 15% organically (and by 20% using the measurement methods of some of its competitors), some indicate that the industry declined by 2% in 2001 and by 1% in 2002.

Tough times at the moment, then, but this must be almost inevitable given the strong and sustained growth of the 1990s. It is difficult to find or remember a similar period in economic history, when we have seen uninterrupted growth for almost a decade. In fact, you probably have to go back to the 1920s to see a similar period and remember the correction we had after that.

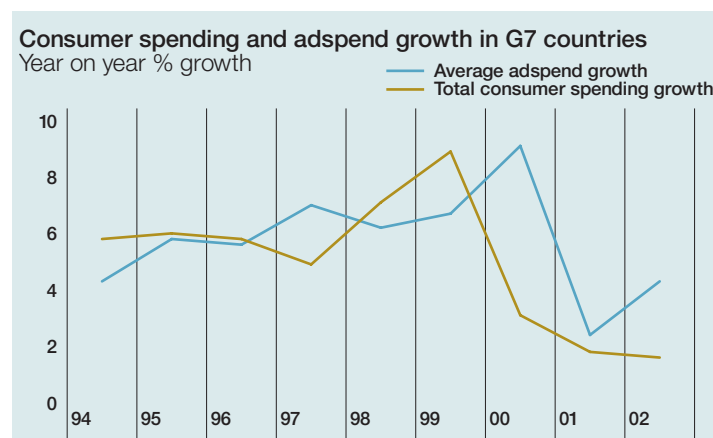


Source: IMF

The 1990s were characterised by Friedmannite economics focused on monetary policy, with independent central banks concentrating on eliminating the evils of inflation rather than those of unemployment. Post-Second World War economic policy had previously focused on unemployment, without worrying too much about inflationary pressures.

Current levels of unemployment are really quite high, for this stage of the cycle. Although the US and the UK are around 5-6%, unemployment in France, Germany, Italy and Spain is at the relatively high levels of 7-9%, with regional levels very high in areas such as east Germany, the south of France, southern Spain and the Mezzogiorno in Italy.

Given that it is probably impossible to totally eliminate the business cycle, it is almost inevitable that there must be an economic correction. Continuous growth at a significant level is probably unsustainable and given the strength of economic activity in the last decade and the speculative blow-out in 2000, a lengthy correction is probably also virtually inevitable – almost the biblical parable of seven fat years and seven lean years.



Source: HSBC/ZenithOptimedia

Recent government fiscal stimulation

However, there is currently considerable fiscal stimulation on both sides of the Atlantic from government deficit spending. It is no accident that the British government is one of the largest advertisers in the UK, spending approximately £150 million each year. In addition, the total cost of recent military action in the Middle East may total \$90 billion, all of which may further stimulate the economy.

To date, the recession has been basically a business-to-business recession with capital expenditure and other forms of discretionary expenditure, such as advertising and marketing services expenditure, under similar pressure. Even very low nominal interest rates have been unable to change thinking, with such substantial capacity

still to be used. In recent months, even consumer confidence has eroded as unemployment has risen and the tragedy of 9/11 and the Iraq invasion have had their impact too. In these circumstances, it is difficult to see anything other than a gradual recovery and little likelihood (or advisability) of returning to the levels of growth seen a few years ago.

The bath-shaped analogy still holds, perhaps with deep corrugations to reflect erosion in consumer confidence, rather than more optimistic U- and V-shaped recoveries or more pessimistic Ls and As.

Consolidation continues amongst clients, media owners, retailers and agencies

This short-term picture has been clouded by a number of other factors too. Consolidation has been moving ahead at a considerable pace. On the client side there continues to be significant activity. The bids for Hershey by Wrigley, and a consortium of Cadbury Schweppes and Nestlé, may have failed, but Cadbury Schweppes came back for Adams and Energiser bought Schick. More recently, Procter & Gamble has bid for Wella and rumours surround other major FMCG companies, such as Baierdsdorf.

Despite lower levels of general merger and acquisition activity, consolidation continues and not only among clients. It continues amongst media owners too. New legislation in the US, the UK and even, for example, Brazil positively encourages it. Our clients and our media investment managers may well have to deal with one ITV company in the UK in future. Rupert Murdoch continues his inexorable advance in many parts of the world such as Italy, and, most recently, more broadly through DirecTV.

In addition to clients and media owners, retail is further consolidating too. For example, Safeway seemed to have been forgotten about completely, until William Morrison's bid, which in turn triggered the interest of six or seven bidders.

Finally, advertising and marketing services companies themselves are consolidating. Publicis recently dismantled D'Arcy, and consolidated it into its other two agency brands which itself represented the consolidation of more than three agencies. Cordiant is rumoured to be negotiating a sale and Havas is increasingly feeling the pressure of the middle-ground.

Increasing trade and price promotion

Secondly, in an over-capacity, low inflationary environment with very little pricing flexibility, some industries have turned to trade or price promotion strategies. The most prominent being the automobile

and truck industry, where 'marketing' is totally focused around zero coupon financing (effectively no interest loans) and cash give-backs. General Motors seems to believe it has a balance sheet advantage, particularly over its Detroit-based rivals, and most recently has entered into a five-year zero coupon financing program – very much a last-man standing strategy, which may result in profitless prosperity and break-even economics at full-capacity.

Interestingly, the Japanese, Korean and German competitors have tended to resist the temptation to offer incentives of as much as \$3,000 per vehicle, instead giving \$1,000 or so away and focusing on innovation and marketing whilst posting record profits.

Similarly, food manufacturing companies have focused on price promotion, trade discounts and cutting costs,

If you focus on price, you end up selling commodities. If you focus on innovation and product, you earn a price premium and build brands

including marketing, to build distribution in response to an increasingly consolidating retail industry.

Unfortunately, if you focus on price, you end up selling commodities. If you focus on innovation and product, you earn a price premium and build brands. The whole area of trade promotion will also come under increasing analytical attention. As a result, the amounts invested in the trade will be more easily seen and analysed and, more interestingly from our point of view, compared to spending on advertising and marketing services. Direct comparisons of expenditure on advertising and marketing services and trade investment will now be increasingly possible.

Fees, procurement and outsourcing

Over recent years there has been a significant switch in agency advertising remuneration from commissions of 15% of gross media cost (17.65% of net), to lower levels of commission of around 12% (including media planning and buying) and to fees of roughly equivalent value. Production commission has also largely been reduced or eliminated. At WPP fees now represent about 75% of all revenues. Our marketing services businesses (representing 54% of our business) have always been fee-based. Fees now represent about half of our advertising business (which constitutes the remaining 46% of the business). Fees tend to be time-based, and as such some believe reduce profitability.

If anything, we find fees more attractive. They reduce seasonality in a business which tends to be focused on the second and fourth quarters. They ensure we are paid for the work we do, even if our clients do not spend or continuously re-brief us. Finally, they encourage us to plan our business more carefully and effectively, through annual resource plans.

I cannot remember a time, in the 25 or so years I have

I cannot remember a time... when clients have been so focused on cost

been in the industry, when clients have been so focused on cost. Given over-capacity, low inflation and lack of pricing power and high management turnover, it is perhaps understandable. However, the question remains whether the procurement process can successfully buy creative services, in the same way that door handles or widgets are purchased. The emphasis on procurement seemed to start in the pharmaceutical industry and then graduated elsewhere. It may work in the area of media buying, where there are clearly economies of scale, but not necessarily in the media planning area or other creative areas.

It is true that we must improve our processes and eliminate waste, but can you buy ideas or our people's creativity in such a mechanical way? Increasingly, pressure on price will drive our best creative resources to those clients and categories where they feel their services are appreciated and rewarded appropriately. There are many marketing clients who still experience the fact that great advertising ideas or copy deliver outstanding results.

The question remains whether the procurement process can successfully buy creative services, in the same way that door handles or widgets are purchased

Reducing marketing costs indiscriminately, particularly in industries with heavy fixed production costs, will only result in having to spread those costs over fewer sales.

The procurement process seems to be based on the idea that what we provide is low value added, and that as we are dependent on significant revenues from large clients, we can be squeezed. This thinking may well be flawed. First, what we do is critical. There is a finite limit to how

The Advertising and Marketing Services Industry: Short-Term Gloom, Long-Term Glory (continued)

far costs can be reduced; but there is almost no limit (apart from 100% market share) to how far you can grow revenues. Secondly, in an increasingly undifferentiated world, what we do – differentiate products and services, both tangibly and intangibly – is becoming more and more important.

Finally, the growing consolidation in our own industry is providing fewer and fewer opportunities for clients in terms of potential resources. Particularly amongst international, multinational or global companies it is increasingly difficult to find co-ordinated resources that can deliver what they require. Smaller, country- or city-based operations just cannot provide the depth of coverage.

One interesting recent development is the growing interest in outsourcing parts or all of the marketing function. Clearly this is an opportunity for us and is being driven by CEOs' focus on costs and their analysis of their own investment in marketing services. Instead of focusing on amounts spent outside the organisation, there is also now increasing examination of amounts spent inside the company. In a number of areas, including advertising, direct marketing and research, there is considerable interest in what can be done in

externalising costs. Clearly this tends to make internal marketing departments increasingly defensive about their own functions.

Media fragmentation

Another significant short-term pressure is media fragmentation. This has been driven by a combination of TV price inflation and falling audiences as media consumption habits changed. New technologies provided new media such as personal computers, the internet and interactivity. Changing technology altered the economics of traditional media such as newspapers and magazines, whilst minority media such as radio, outdoor and cinema improved their offering through better marketing and research.

As a result, clients are increasingly examining the absolute levels of their advertising and marketing services investment and whether it makes sense to shift their portfolio of media investment, principally from network television to cable or satellite or radio or outdoor or cinema or direct or public relations or interactive or internet or whatever. The econometric analysis of media investment is becoming increasingly important.

Comparative rankings of communications industry segment 2001 and 2006

	2001		2006 ¹	
	\$bn	% of total	\$bn	% of total
Entertainment	74,011	12.7	97,382	12.8
Cable & satellite television	70,212	12.1	106,322	14.0
Newspapers	61,942	10.7	79,418	10.5
Business information services	47,406	8.2	65,248	8.6
Direct mail	46,152	7.9	50,404	6.6
Professional, educational & training media	40,231	6.9	51,348	6.8
Broadcast television	38,665	6.7	46,695	6.2
Business-to-business promotion	36,184	6.2	47,827	6.3
Consumer promotion	34,616	6.0	41,395	5.5
Consumer internet	21,537	3.7	39,111	5.1
Business-to-business media	21,022	3.6	24,445	3.2
Consumer magazines	20,911	3.6	24,494	3.2
Radio broadcasting	17,892	3.1	24,143	3.2
Consumer books	17,846	3.1	20,469	2.7
Yellow pages	14,430	2.5	16,950	2.2
Event sponsorships	9,301	1.6	13,196	1.7
Outdoor advertising	5,193	0.9	5,989	0.8
Public relations	2,900	0.5	4,700	0.6
Total	580,451	100.0	759,536	100.0

Source: Veronis Suhler

Notes

¹ Estimated

2001 communications industry forecast compared with actual growth

	2001 forecasted growth %*	2001 actual growth %**
Broadcast television	-2.8	-8.6
Cable & satellite television	7.9	9.7
Radio broadcasting	-0.7	-6.2
Entertainment	5.9	5.5
Consumer internet	4.3	8.5
Newspaper publishing	-0.6	-6.1
Consumer book publishing	1.9	-0.6
Consumer magazine publishing	-0.4	-4.5
Business-to-business media	-1.6	-12.7
Professional, educational & training media	6.1	2.6
Business information services	5.5	-0.2
Yellow pages	4.7	5.3
Outdoor advertising	5.8	-0.8
Consumer promotion	3.6	-5.1
Business-to-business promotion	4.1	-6.1
Direct mail	5.0	3.5
Event sponsorships	9.4	6.9
Public relations	-	-7.0

Source: Veronis Suhler

* Veronis Suhler 2001 Communications Industry Forecast

** Veronis Suhler Stevenson, The Publishing & Media Group

Super agencies

Finally, in the short term, there has been the development of the so-called super agencies – the holding, or what we at WPP prefer to call, the parent companies. Formed initially in response to the pressures of consolidation and to house conflicting accounts, the super agencies really represent the new full service agencies of the 21st century.

In the 1950s, if you visited, for example, J. Walter Thompson in Berkeley Square in London, you would find a creative department, an account handling department, a planning department, a production department, a public relations agency, a research company, even an operations research department that designed the factory for Mr. Kipling's cakes, a new product idea invented by the agency.

Over time clients thought it best to try and unbundle these services, principally to reduce cost. Essentially this involved a split between the brand agency and the media agency, resulting in a reduction of cost from approximately 15% of gross media cost to about 12%.

In addition, people inside the agencies, particularly media people, felt their particular skills remained unrecognised and relatively unrewarded. Rewards and investment were focused on creative departments, rather than media departments and as a result media departments were probably more profitable. Good media people, therefore, left and started media independents, such as Carat, Media Planning Group, CIA and Western International, which grew organically and by acquisition. Many have now been re-absorbed into the super agencies, but in an inter-dependent or autonomous form.

The challenge is to provide the best ideas, in the best co-ordinated or integrated way at the lowest price

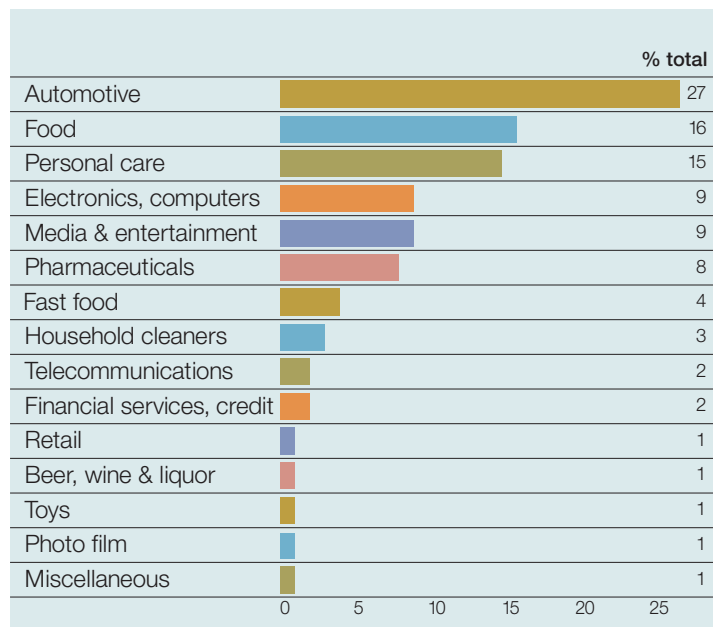
Today, the new super agencies have a major opportunity. Clients still require creativity or great creative ideas, first and foremost. Secondly, but increasingly, they want greater co-ordination, although it is no good co-ordinating a lousy idea. Finally, they want it at the lowest possible price. The challenge is to provide the best ideas, in the best co-ordinated or integrated way at the lowest price. To respond to this the super agencies, in turn, will have to focus on attracting, retaining and developing the best talent, structuring their organisations in the most effective way and incentivising their people successfully.

Five Key Factors For Long-Term Healthy Growth

The short-term picture is certainly a difficult one. Next year should provide some relief. However, in the long term there are a number of factors that will underpin and reinforce the growth of advertising and marketing services.

Top 100 advertisers spending by category

	Measured advertising expenditures			
	2001 \$m	2000 \$m	% change	% total
Automotive	19,334	20,001	-3	27
Food	11,221	12,054	-7	16
Personal care	10,300	9,795	5	15
Electronics, computers	6,558	7,129	-8	9
Media & entertainment	6,285	6,091	3	9
Pharmaceuticals	5,656	5,459	4	8
Fast food	2,989	3,059	-2	4
Household cleaners	2,204	2,067	7	3
Telecommunications	1,733	2,158	-20	2
Financial services, credit	1,156	1,358	-15	2
Retail	987	1,055	-6	1
Beer, wine & liquor	951	937	2	1
Toys	529	603	-12	1
Photo film	490	468	5	1
Miscellaneous	558	622	-11	1
Total worldwide	70,951	72,856	-3	100



Source: Adage.com

The Advertising and Marketing Services Industry: Short-Term Gloom, Long-Term Glory (continued)

Globalisation or Americanisation

It is 20 years since Professor Theodore Levitt wrote his famous article in the *Harvard Business Review* on the likely globalisation of consumer tastes and preferences. Basically, Levitt argued that consumers would increasingly purchase goods and services in the same way everywhere. Twenty years on, it appears that the theory may well have been flawed. Truly global products and services, such as soft drinks or fast food or computer hardware or software, only account for about 10-15% of WPP's revenues, and even in some of these categories there may be marked differences in the purchasing decision. Consumers are probably more interesting for their differences rather than their similarities. Certainly, politically there has been more disintegration than integration. Just look at Yugoslavia, or devolution in Scotland or Wales, or even Iraq.

What has been going on may well not have been globalisation, but more Americanisation of markets. Not in the sense that the French tend to get upset about when they seek to ban Americanisms from

their commercial language. This is not about cultural imperialism. It is more about the fact that if you wish to build a global brand or a global business, you have to dominate the American market. In most lines of activity, the US market accounts for almost half of the volume. In our own industry of advertising and marketing services, the US accounts for about 40-45%. You could argue, that given the importance of US-based multinationals, they control, or to be more politically correct, influence, almost two-thirds of the market.

At WPP, the top 40 clients represent 40% of revenues. Twenty-seven of the top 40 are based in the US, 12 in Europe and one in Japan. Moreover, most of the US-based multinationals are concentrated in a relatively small geographic part of the country. True there are major companies based in Seattle or Portland or San Francisco or Los Angeles or Houston (at least there were!) or Dallas or Atlanta, but the majority are concentrated in a north-east corridor around Detroit, Chicago, Boston, New York and Washington.

Failure to understand this can be life-threatening. Take, for example, the investment banking industry. Ten to 15 years ago the strong brands in Europe included Morgan Grenfell, SG Warburg, Schroders and Flemings. Essentially, each of these national or regional brands failed to crack the North American market. At that time no self-respecting national banker would work for an American multinational. Today the American brands dominate the business – Goldman Sachs, Morgan Stanley, Merrill Lynch, Citigroup. Strong talent is happy to work for them, as they monopolise the intellectual challenges in the industry and are probably better and more sensitively run. Those major European-based businesses that remain such as Deutsche Bank or CSFB still have to wrestle with the challenge of establishing major franchises in the US.

Top 10 US advertisers

Company	Spending in \$m		% change
	2002	2001	
General Motors Corp	2,521	2,242	12.5
Procter & Gamble	2,160	1,767	22.2
AOL Time Warner Inc	1,845	1,745	5.7
Ford Motor Co	1,451	1,296	11.9
DaimlerChrysler AG	1,401	1,421	-1.4
Walt Disney Co	1,160	1,106	4.9
Verizon Communications	1,073	849	26.4
Johnson & Johnson	1,053	870	21.0
Toyota Motor Corp	937	809	15.9
Altria Group Inc	920	1,127	-18.4
	14,521	13,232	9.8

Source: CMR/TNS Media Intelligence

Top 10 global advertisers

2001 rank	2000 rank	Advertiser	Worldwide advertising spending \$m		
			2001	2000	% Change
1	2	Procter & Gamble	3,820	3,584	7
2	1	General Motors Corp	3,029	3,792	-20
3	3	Unilever	3,006	2,928	3
4	6	Ford Motor Co	2,309	2,242	3
5	5	Toyota Motor Corp	2,213	2,284	-3
6	8	AOL Time Warner Inc	2,100	1,918	10
7	4	Philip Morris Cos Inc	1,935	2,389	-19
8	7	DaimlerChrysler AG	1,835	2,096	-12
9	9	Nestlé	1,799	1,743	3
10	10	Volkswagen	1,574	1,607	-2
			23,620	24,583	-4

Sources: Adage.com, Nielsen Media Research, TNS Media Intelligence, IBOPE and others

Neither can you find many examples of successful European-based global companies in other industries. BP and Shell certainly understand the point, as do Nestlé and Unilever, the latter two having recently significantly increased the importance of their American operations through scale acquisitions. DaimlerChrysler certainly understands the point too, and despite significant criticism for their international expansion in the early stages, Jurgen Schrepf's global strategy will be vindicated. Vodafone, GlaxoSmithKline and AstraZeneca are other good examples, but there aren't many more.

Current American hegemony is based on three strengths. First, the relative size and homogeneity of the US market. Although there are differences between north and south, and east and west, the 280 million population is relatively homogeneous. Much more homogeneous than the 500 million population of the enlarged European Union. There really is no such thing as a Euroconsumer who was born on 1 January 1993.

Secondly, the size and efficiency of the US capital markets. It still is the easiest and cheapest place in the world to raise debt and equity capital. Price earnings multiples on debt or equity are lower as a result. Finally, their technological advantage. I am hard pressed to recall an area where they do not dominate. Perhaps, 3G technology, but maybe that was a pyrrhic victory for the Europeans given the prices paid for the licences.

Of course, this could all change. If you look back through history, when any country appeared to have complete political, economic and military hegemony, the vacuum was filled by a counter-balancing force. This clearly will be China. Prior to 9/11, the momentum had

certainly begun. Perhaps 9/11 checked the momentum slightly, as the Chinese and the Russians, for that matter, have to understand Moslem issues too, but there is little doubt that China with its population of 1.3 billion people will be that countervailing force.

Indeed Asia Pacific, as a whole, may well become predominant. India has a population now of over 1 billion, so over one-third of the world's population is located in two Asian countries. By 2014, two-thirds of the world's population will be located in Asia Pacific. Greater China is already WPP's fifth largest market and China's progress will be rapidly enhanced by the Beijing Olympics in 2008 and the Shanghai Expo in 2010. The Chinese government

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has already committed itself to \$45 billion of infrastructure investments around the Games and there will be a 24/7 Olympic television channel on CCTV (the Chinese government's TV channel) from the middle of 2004, when the Chinese Olympic Team sets off for Athens.

The other challenge to American dominance could also come from Asia in the form of the Moslem population.

World's top 10 most valuable brands 2002

		2002 brand value \$m	% change 2002 vs 2001	2001 brand value \$m	Market cap. of parent company July 2002	Brand value as % of market cap. July 2002	Industry	Country of origin
1	Coca-Cola	69,640	1	68,950	126,600	55	Food & beverages	US
2	Microsoft	64,090	-2	65,070	271,500	24	Software	US
3	IBM	51,190	-3	52,750	119,850	43	Technology	US
4	GE	41,310	-3	42,400	279,550	15	Industrial	US
5	Intel	30,860	-11	34,670	122,500	25	Technology	US
6	Nokia	29,970	-14	35,040	64,600	46	Telecoms	Finland
7	Disney	29,260	-10	32,590	36,250	81	Travel & leisure	US
8	McDonald's	26,380	4	25,290	32,800	80	Retail	US
9	Marlboro	24,150	10	22,050	95,500	25	Leisure goods	US
10	Mercedes	21,010	-3	21,730	45,000	47	Automotive	Germany

Source: Interbrand (Business Week 2002), Bloomberg

Currently, there are over 1.5 billion Moslems, 26% of the world's population. By 2014, there will be 2.1 billion or 30% of the projected world population. The recent Iraq conflict seems only an extension of a series of events in recent years, stemming from Suez in the 1950s, to the oil price increases in the 1960s, to the Kuwaiti invasion in the 1990s. Western governments and populations have not really sought to understand the Moslem mind, relying instead on the assumption that their goals, values and ideas were broadly the same as ours. It looks increasingly as though they are very different, and we had better make a sincere and serious attempt to understand exactly how and why.

No doubt recent events will require a different approach for those American- and European-based multinationals as they seek to develop their operations abroad. The average American-based multinational is still 70% rooted in the US. Coca-Cola, with 70% or so of its business outside the US, is the exception rather than the rule. Pepsi-Cola is more the usual situation.

In these circumstances, as these companies seek to achieve their growth objectives through overseas expansion in relatively heterogeneous markets, they will probably have to place more emphasis on national management, national approaches and national customs. Perhaps, the global pendulum has swung too far, in the rush to build global brands leaving a vacuum at the local or regional level.

Certainly, in our own business, we are experimenting with WPP client co-ordinators and country managers to provide a more local focus and encourage national

In an increasingly undifferentiated world, what we do – differentiate products and services – is becoming more and more important

management and people. Expatriates are often an expensive and temporary solution for management opportunities or problems.

Over-capacity and the shortage of human capital

The single biggest issue facing clients in almost every category in which we operate is over-capacity. In fact, I am hard pressed to think of any industry where there is significant under-capacity. Perhaps the tequila industry, where it takes seven years to grow the necessary herb required to produce it, or luxury industries such as watches or fashion, with companies such as Rolex and Hermes.

Most industries are like the automobile and truck industry, where producers can produce approximately 80 million units, and consumers can consume approximately 60 million units.

The situation is particularly difficult in politically sensitive industries, like automobiles and trucks, as governments rarely permit significant down-sizing for fear of increasing unemployment and risking voter dissatisfaction. For example, Prime Minister Berlusconi seems willing to nullify Fiat's expensive put on General Motors to avoid increasing unemployment in Italy, particularly in the Mezzogiorno. The critical issue in the 19th and 20th centuries was ensuring that sufficient product could be produced and delivered to the consumer. In the 21st century the issue seems to be convincing the consumer to purchase your product or service.

In these circumstances, differentiation – both tangible and intangible – is critically important. Historically, tangible differentiation was easier. Today any technological or tangible difference can be copied easily. As brand cycles have lengthened, product life cycles have shortened as technological transfer has quickened. Again an example from the automobile or truck industry. Years ago, it took some five years to produce a car or truck from the time the design was started to delivery to the first customer. Today, it takes less than 18 months.

Driven by the competitive aggression of the Japanese, South Koreans and Germans in particular, the American-based manufacturers have followed suit. As a result, intangible differentiation has become even more important. The suit or dress you wear, the car you drive, where you live, where you holiday, how you spend your leisure time, says something about your emotional, psychological and life style preferences.

Many find such concepts difficult to accept, believing there is something immoral or at least unsavoury about people buying products or services for emotional, rather than tangible benefits. But these likes and dislikes are equally important and even more satisfying, particularly in an over-crowded marketplace. And this is where advertising and marketing services are so important, in developing and justifying differentiation of all kinds.

Whilst we are faced with significant over-production or over-capacity in most markets, what is it that is in more and more short supply? The supply of human capital. The 21st century will also see an under-supply of people. Every demographic statistic, in virtually every country is pointing this way eventually, even in relatively youth structured economies like Mexico. Birth rates are declining, family sizes are reducing, divorce rates are rising, single parent families are increasing, death rates are declining and populations are ageing.

All this data points to the increasing importance of attracting, recruiting, developing, incentivising, motivating and retaining human capital. It is likely that an increasingly important differentiator between firms will be the quality of their human capital, particularly, again, with the other difficulties in differentiation. Making sure that all your people 'buy-in' to the strategy and structure of the company will be increasingly important. Living the brand operationally will be critically important.

The web

It has become almost fashionable to decry the importance of the web, particularly since the dotcom implosion of 2000. However, WPP's smarter clients and those who missed out on the opportunities in the 1990s are now taking advantage of depressed values and a contrarian

It is likely that an increasingly important differentiator between firms will be the quality of their human capital

position. Using a broad-based definition of web activity, about 15% of WPP's revenues are already web-related and still growing.

There seem to be three basic reasons why. First, there is still the threat of disintermediation by the web. For example, \$1 billion of WPP's revenues are in market research. The market research industry has traditionally relied on two media to develop research, the phone and the mail. Traditionally, developing a questionnaire, distributing it, having it answered, analysing it and delivering the results to the client in manageable form might take three months. Many CEOs despair at the length of the process, complaining that by the time the answer has been delivered, the problem has changed. Today, through internet panels such as WPP's Lightspeed, clients can reach 600,000 or so consumers in the US almost instantaneously and answers to research issues can be delivered in 24 hours.

Secondly, you are being disintermediated by lower cost business models, which are still being evaluated by financing institutions on a different basis to traditional models. Despite the vicious disintegration of valuations, the financiers of new technology and new media companies still evaluate them in a different way to more traditional companies, like WPP. Their focus still tends to be on sales and market share, rather than margins, profitability, cash flow or return on investment.

Thirdly, they still steal your people. Following the bankruptcies of many internet start-ups that promised fast generated fortunes, many young people who had been attracted to these new, seemingly rapidly growing businesses, returned to more traditional businesses. WPP lost a number to internet start-ups and I am glad to say many returned. I was glad to conduct a number of re-entry interviews, hoping to welcome young men and women anxious to grovel to have their jobs back. Far from it. The age of apprenticeship and loyalty to large, bureaucratic companies is over. It was probably half killed-off by the down-sizing of the 1980s and 1990s. The final nail in the coffin was the internet boom of the late 1990s.

Given a similar opportunity again, most young people would relish the opportunity of joining small or start-up opportunities, where bureaucracy is limited and structure is loose. Staying with one company for your whole working life, as my father advised me to do to be successful, does not seem to be the best career track.

Internal communications

Given the scale of strategic and structural change that is going on inside most companies, one of the most important challenges facing most CEOs is communicating that change internally. You could argue that well over half of WPP's activities are aimed internally, in addition to externally at customers, or other stakeholders. As Allan Leighton argued very eloquently at ASDA (now Wal-Mart) in the early 1990s, making sure you have your people onside and motivated will make sure that customers are happy, that potential employees are impressed, that suppliers are motivated, that journalists and analysts learn good things, that government and NGOs are similarly impressed and on and on.

Building this virtuous circle in a uni-branded company is not easy, but building it in a multi-branded company like WPP, where the 'tribes' or operating brands are maintained to overcome diseconomies of scale is even more difficult. Trying to ensure that all 62,000 WPP people face in the same direction, at the same point in time is not easy. On the other hand, if it is achieved it is a very powerful force.

Interestingly, most of our various functions conduct internal communications through Advertising, Media investment management, Information, insight & consultancy, Public relations & public affairs, Branding & identity, Healthcare and Specialist communications. However, no single brand or 'tribe' exists within WPP to execute internal communications, on a worldwide scale. Clearly an opportunity for the future.

Concentration of distribution

Whenever we ask CEOs what is the thing that worries them the most or keeps them awake at night or that

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they worry about when they first wake up in the morning, they always respond “distribution”. Procter & Gamble recently revealed that 18% of its sales go through Wal-Mart. One of WPP’s consumer electronics clients sells one-third of its European volume through Carrefour. One of WPP’s media suppliers, a magazine publisher, sells 10% of its cover volumes through Wal-Mart. For the publisher that is very significant. For Wal-Mart, it amounts to a rounding error, and the magazine publisher has to deal with the third or fourth level of procurement. More people visit Wal-Mart in the US during one week, than go to Church on a Sunday. Some claim Wal-Mart is the new religion.

Influence and control of the channels of distribution, is not an issue confined to packaged goods but affects all industries. In a sense markets have come full circle again. After all, advertising was first developed in the 19th century, for manufacturers to appeal over the heads of the wholesalers and retailers to encourage consumers to purchase their products.

WPP believes that an understanding of distribution and retail is essential and it is one of its core practice development areas. WPP’s *The Store*, our virtual retail agency, links over 900 retail professionals around the world, updating them on latest developments and trends, subject to client confidentiality constraints. Management Ventures Incorporated in Boston with over 50 global retail analysts, and Glendinning Associates, experts in channel management, supplement and consolidate our knowledge of global retailing.

Conclusion

Whilst the short-term outlook for the advertising and marketing services industry is mixed and pressured, the underlying long-term trends of globalisation or Americanisation; over-capacity of production and shortage of human capital; the web; internal communications; and, finally, concentration on distribution, will underline the importance of our thinking and skills and ensure that communications services as a proportion of gross national product will bust through the previous cyclical highs established at the top of the previous cycle in 2000. ■

Benjamin Franklin and the Kuala Lumpur Question:

*“Sometimes A Little Neglect
May Breed Great Mischief”*



The city of Florence recently announced the winner of a competition, open to architects throughout the world, for the design of a new railway station. As is the custom in these cases, all the short-listed designs are now on public display, including that of the winner, Norman Foster.

Even to an untutored eye, the time, thought, money, passion, talent and love lavished on every one of them is painfully apparent. To study their brilliant fusion of function and form is to feel a huge sense of sympathy – not just for the losers but also for the members of the adjudicating panel whose job it was to make the final choice. There were to be no consolation prizes. There could be only one winner. How in the name of justice was that single winner to be chosen and the rest confined to oblivion?

I don't, of course, know; but I'm entirely confident that the process can only have been completed by that which in certain advertising circles is known as the Kuala Lumpur Question.*

To understand the implications of the Kuala Lumpur Question, you must first put yourself in the place of any adjudicator faced with the need, as were the Florentine panellists, to make a single choice from multiple offerings, many of which are excellent.

Let us say that you have in front of you 150 written applications for a single job vacancy and that you must first reduce that number to 10; and later, from that 10, choose one.

You may start by believing that you will scan through those applications and select only the most promising: that you will search for the positive. But very quickly indeed, if you're at all self-aware, you'll notice that a subtle change has come over your assessment process. Rather than taking out your hi-liter pen and emphasising the most appealing characteristics of the most promising applicants, you begin to look for errors and omissions. Rather than looking for reasons for inclusion, your eyes will begin to scan the papers for evidence to justify rejection. You find yourself longing to alight on the small false fact, the typographical error, the relatively unimpressive qualification, the failure to do the most

basic homework about your own company. You seize on these often insignificant features with relief and gratitude: with a clear conscience, you may now begin to eliminate; your candidate pile is already down to 149, 148, 147, 146...

The Objective Disqualifier

Advertising agencies, brand consultants and professional advisers of all kinds routinely find themselves taking part in beauty parades, presenting their credentials to potential clients in competition with many others. Understandably, they concentrate on their proprietary skills and their authenticated achievements; so they are not always ready for the Kuala Lumpur Question.

"Tell me," says the potential client, now half way through the fifth impressive presentation, "Do you have an office in Kuala Lumpur?"

It is possible, I suppose, that access to an office in Kuala Lumpur is indeed of cardinal commercial importance to this client. It is very much more likely, however, that the client is searching with something approaching desperation for an apparently respectable reason for the elimination of at least one of the candidate agencies. However trivial it may be, he needs an Objective Disqualifier.

On receiving the verdict a week or two later, the candidate agency in question reacts with disbelief and outrage. "They loved the work we do for X, they thought our strategy was fantastic, they found the chemistry between us sensational – yet they've bumped us off the bloody list *because we haven't got an office in Kuala Lumpur!*"

The outrage is understandable but the disbelief is naïve. This process of selection, or something very close to it, is inevitable in any competitive situation where there are more high quality applicants than opportunities. The luckless Florentine adjudicators, faced with a great many brilliantly conceived designs for railway stations, must, towards the end of the process, have scrutinised each meticulously made-to-scale model not for evidence of perfection but for evidence of imperfection.

*No slight to Kuala Lumpur is intended. In Malaysia, the Kuala Lumpur Question might be the Grand Rapids, Michigan Question; and in Grand Rapids, Michigan, it might well be the Tierra del Fuego Question.

The truth of all this may have been apparent enough to competitive professions for a very long time. A little belatedly perhaps, marketing companies are waking up to the fact that, in consumer markets, too, there are many more applicants than opportunities; more production than consumption; more supply than demand.

As touched on very briefly in last year's WPP annual report essay, greatly increased consumer choice and confidence mean that individuals making brand selections behave more and more like the adjudicating panel of an architectural competition – and for exactly the same reasons. Faced with an array of competitive brands – all known to be functionally satisfactory (which is why they are competitive) and all pleading persuasively for our custom – we have no choice but to eliminate: so “in allocating our loyalty we welcome reasons to reject a brand almost as eagerly as reasons to prefer it.” At some level of consciousness, we search for the Objective Disqualifier, however trivial.

Eliminate the negative

It's been recognised for at least 70 years that few everyday brands enjoy significant functional advantages over their competitors; and that even when they do exist, they tend to be short-lived. The growth of marketing communications over that same period owes much to their acknowledged ability to establish and maintain brands whose distinctive positioning derives at least as much from brand character as from brand performance.

We find it impossible to think as highly of a brand in its totality if just one minor abrasive factor disturbs its polished surface

In a future which promises still more over-capacity in production, fierce competition in prices, elusive margins and a consuming public increasingly asserting its democratic right to be picky, there can be little doubt that marketing communications are in for a period of sustained demand. But maybe, in this second stage of consumer enfranchisement, we now need to do rather

An unresponsive call centre; a clumsy letter from head office; a rumour on the internet... each of these trivial occurrences may be enough to lose the brand a lifetime loyalist

more than accentuate the positive; however difficult it may prove to be, we'll have to learn to anticipate and eliminate the negative as well.

Conventional research won't help us very much. What do marketing directors value most highly in advertising agencies? The trade press regularly conducts research on this subject, and this is what marketing directors value: an understanding of their business, creativity, strategic insights, good management. Marketing directors will never confess to a researcher that what they are really looking for is an office in Kuala Lumpur; because, of course, they aren't. The ownership of an office in Kuala Lumpur will never, of itself, win you business. The absence of one, however unjustly, may be used to justify your losing it.

Beers, banks and candy bars

Exactly the same set of principles applies to consumers of beers, banks or candy bars. And exactly the same process applies not only to the selection of an option in the first place but also to its subsequent deselection.

What do I want from a bank? I want efficiency, accuracy, availability and security; and – sentimentalist that I am – I'd also like to believe that my bank sometimes thinks of me as a human being.

I'd once had the same bank for about 20 years and felt a general discontent about it. Yet it continued to provide efficiency, accuracy, availability and security: so I stayed with it. Then one day, very politely, I asked them why I was having the occasional problem getting my bank card accepted. Time passed – and I then got a letter from the manager expressing surprise that I had encountered such a problem since he himself was having no trouble whatsoever. And that's all he said.

Something snapped. I'd found the excuse I'd been subconsciously looking for: the Objective Disqualifier. So I fired them. And I have no doubt that they were utterly astonished that such a trivial incident could have prompted me to jettison 20 years of amiable rubbing along in order to embark on the fearful journey of moving my bank account.

There's been a great deal of talk over the last 10 years or so for the need for integrated communications. We are all agreed by now, I think, that our multitude of different brand communications needs to be carefully monitored for coherence and cohesion; that advertising, PR, direct marketing, website design and maintenance, in-store display, promotions and perhaps a dozen other consumer encounters need to complement each other; need to be integrated.

What often seems to be forgotten, however, is that all brand communications, however disparate and chaotic, inevitably end up being integrated anyway. The trouble is, they end up being integrated not by the brand's managers but by the brand's potential users. And the way that consumers conduct this integration is seldom to the benefit of the brand's reputation.

The receivers of brand communications, like all receivers, abhor dissonance. We find it impossible to think as highly of a brand in its totality if just one minor abrasive factor disturbs its polished surface. One small disrupting experience, one jarring note in its communications, one piece of brand behaviour that contradicts the brand's promise: and, in our need to find consonance, we will downgrade our ratings until everything fits again. By the time we've completed integrating its incoherent communications, the brand will be diminished in our minds.

Back to 1758

So two dangerous truths both collide and collude. In trying to make coherent sense of a brand's contradictory signals, the relatively unimportant flaw takes on a disproportionately destructive role; while at exactly the same time, in our quest to make simple, fret-free choices, to eliminate options with a clear conscience, we search for and embrace any evidence of inadequacy. We identify some minor deficiency; then press it into service as our Objective Disqualifier.

In *Poor Richard's Almanack* for 1758, Benjamin Franklin foreshadowed all of this. He urged "circumspection and care, even in the smallest matters, because sometimes a little neglect may breed great mischief." And he reminded us:

For want of a nail, the shoe was lost; for want of a shoe, the horse was lost; for want of a horse, the rider was lost; for want of a rider, the message was lost; for want of a message, the battle was lost; for want of a battle, the kingdom was lost. And all for the want of a horseshoe nail.

In modern marketing, the horseshoe nail may be

In... future, there can be little doubt that marketing communications are in for a period of sustained demand

one of a thousand apparently insignificant factors. Many of those factors, organisationally, may be officially outside the province or responsibility of the marketing director. An unresponsive call centre; the failure to correct a faulty product feature; a clumsy letter from head office; a rumour on the internet; a minor change to a trusted product's formulation: to the besieged consumer actively seeking an equivalent of the Kuala Lumpur Question, subconsciously on the lookout for an Objective Disqualifier, each of these trivial occurrences may be enough to lose the brand a lifetime loyalist.

They can't all be anticipated, of course, and they can't all be prevented. But they do need to be identified and they should never take us by surprise. In a world where virtually every brand has some element of after-sales service about it, an ability to recover, apologise and make amends for the inconsequent may become as commercially necessary as the maintenance of basic product quality. ■

Jeremy Bullmore

Jeremy Bullmore
Director

Who runs WPP

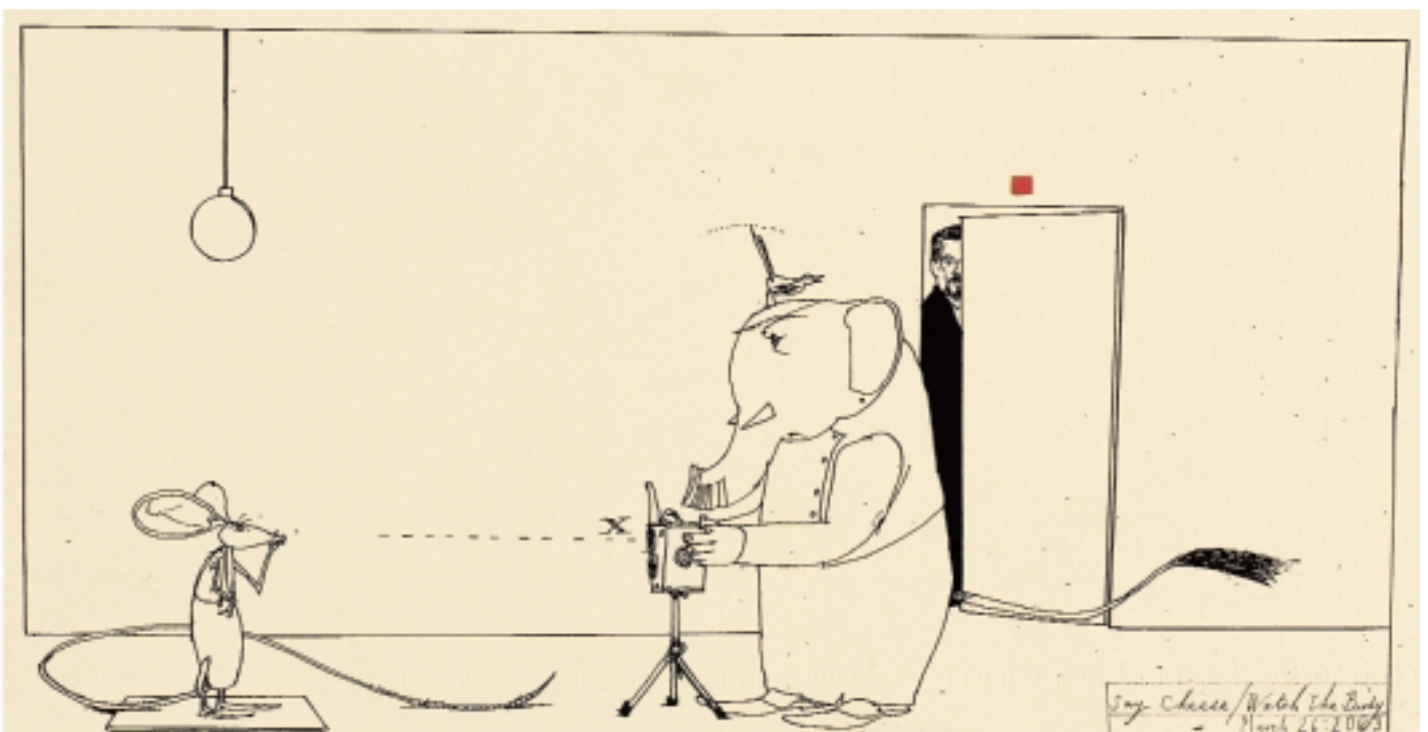
Board of directors

Philip Lader Age 57 Non-executive chairman

Philip Lader was appointed chairman in 2001. The US Ambassador to the Court of St James's from 1997 to 2001, he previously served in several senior executive roles in the US Government, including as a Member of the President's Cabinet and as White House Deputy Chief of Staff. Before entering government service, he was executive vice president of the company managing the late Sir James Goldsmith's US holdings and president of both a prominent American real estate company and universities in the US and Australia. A lawyer, he is also a Senior Advisor to Morgan Stanley International, a director of RAND, Marathon Oil and AES Corporations, a Trustee of the British Museum, a member of the Council on Foreign Relations and chairman of the American Associates of the Royal Academy of Arts.

Sir Martin Sorrell Age 58 Group chief executive

Sir 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 45 Group finance director

Paul Richardson became Group finance director of WPP in 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide functions in finance, information technology, taxation, treasury, procurement and property. Previously he spent six years with the central financial team of Hanson plc. He is a chartered accountant and member of the Association of Corporate Treasurers. He is a non-executive director of Chime Communications PLC and STW Communications Group Limited in Australia, both of which are companies associated with the Group.

e-mail: prichardson@wpp.com

Beth Axelrod Age 40 Chief talent officer

Beth Axelrod, WPP's chief talent officer since May 2002, was appointed a director in September 2002. She is responsible for the recruitment, development, compensation and retention of WPP's people worldwide. She leads the performance management and succession planning of WPP's executives. Prior to WPP, she was a partner at McKinsey & Company. She co-led the consultancy's Organisation and Leadership Practice and led the consultancy's talent management research and client service efforts. She co-authored *The War for Talent* (published by Harvard Business School Press, 2001) and is a frequent speaker on talent, performance and other organisation issues. Prior to McKinsey, she worked on mergers and acquisitions for First Boston Inc in New York and London.

e-mail: baxelrod@wpp.com

Howard Paster Age 58 Director

Howard Paster was appointed a director in January 2003. He was previously chairman and chief executive officer of Hill & Knowlton, Inc. He joined the WPP parent company in August 2002, overseeing WPP's portfolio of public relations and public affairs businesses. Prior to joining Hill & Knowlton, he served as assistant to President Clinton and director of the White House Office of Legislative Affairs. He is a member of the board of trustees of Tuskegee University, president of the Little League Foundation and a member of the Council on Foreign Relations.

e-mail: hpaster@wpp.com

Jeremy Bullmore Age 73 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.

Esther Dyson Age 51 Non-executive director

Esther Dyson was appointed a director in 1999. She is chairman of EDventure Holdings, the pioneering US-based company involved in information technology and new media. She is an acknowledged luminary in the technology industry, highly influential in her field for the past 20 years, with a state-of-the-art knowledge of the online/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 IBS Group, Meetup, NewspaperDirect, CV-Online and Electrobug, among others.

Masao Inagaki Age 80 Non-executive director

Masao Inagaki was appointed a director in 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 group chief executive officer since 1992. He is also vice president of the Japan Advertising Agencies Association.

John Jackson Age 73 Non-executive director

John Jackson was appointed a director in 1993. He is chairman or senior independent director of a number of public companies. He is non-solicitor chairman of Mishcon de Reya. He has extensive experience of a broad range of businesses, including biotechnology, electronics, high technology industries, pharmaceuticals, publishing, printing, retailing and television broadcasting.

Michael Jordan Age 66 Non-executive director

Michael Jordan was appointed a director in 2000 and had been a director of Young & Rubicam Inc since December 1999. He is chairman and chief executive officer of EDS. He is chairman of the National Foreign Trade Council (US), a member and former chairman of the US-Japan Business Council and chairman of The United Negro College Fund. He serves on the boards of Aetna Inc and i2 Technologies, Inc. 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.

David H Komansky Age 63 Non-executive director

David Komansky was appointed a director in January 2003. He was chairman of the Board of Merrill Lynch & Co, Inc, serving until his retirement on 28 April 2003. He served as chief executive officer from 1996 to 2002, having begun his career at Merrill Lynch in 1968. Among many professional affiliations, he serves as vice chairman of the Board of directors of the New York Stock Exchange, as a director of Schering-Plough Corp, and as a member of the International Advisory Board of the British American Business Council. Active in many civic and charitable organisations, he serves on the Boards of New York Presbyterian Hospital, the American Museum of Natural History, the National Academy Foundation and the New York City Police Foundation.

Christopher Mackenzie Age 48 Non-executive director

Christopher Mackenzie was appointed a director in 2000. He is chief executive of Equilibrium, a London-based financial advisory partnership, and Executive Chairman of Brunswick Capital, Russia's leading investment bank and non-bank financial services group. He is also a Board member of ALJ, Saudi Arabia's largest non-government industrial group. Previously he was president and CEO of Trizec Properties and a company officer of GE, heading GE Capital's international business development.

Stanley (Bud) Morten Age 59 Non-executive director

Bud 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. 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. He is a non-executive director of Register.com Inc, a NASDAQ-listed US public company.

John Quelch Age 51 Non-executive director

John Quelch was appointed a director in February 1988. John Quelch is Senior Associate Dean and Lincoln Filene Professor of Business Administration at Harvard Business School. Between 1998 and 2001 he was Dean of the London Business School. Professor Quelch is an expert on global business practice in emerging as well as developed markets, international marketing and human resource management, the role of the multinational corporation and the nation state, and issues at the interface of business management, public policy and society. He was a founding non-executive director of Reebok International Ltd and has served as a non-executive director of three other listed companies in the US and the UK.

The following also served as directors during 2002:

Eric Salama served as an executive director during the year and retired from the Board in October 2002 to take up his appointment as chairman and chief executive officer of Kantar, the Group's Information, insight & consultancy businesses.

Brian Brooks served as an executive director during the year and resigned in September 2002.

Warren Hellman and Sir Christopher Lewinton served as non-executive directors during the year and retired in January 2003.

Senior executives and advisors to the Board

Branding & identity, Healthcare and Specialist communications services

J F Zweig
M E Howe
L A Mellman

Strategic thinking and client co-ordination

J Steel
M Read

Human resources

A Jackson
A Weinberg

Real estate

E Bauchner
J Murphy

Procurement

T Kinnaird
V Chimienti
P Gomes
K Liew
P Perманne

Information technology

D A S Nicoll
S O'Byrne
A Stebbings

Practice development and Knowledge Communities

M Johnson
M Pooler

Financial control and management reporting

D Barker
S Winters
J Drefs
K Gill

International treasury

P Delaney
A Koh
J Forster

Internal audit

P Stanley

International tax

D M Roberts
T O Neuman
R Garry
K Farewell

Corporate development

A G B Scott
A Newman
M Schetlick
R Smits
C Black

Investor relations

C Sweetland
F Butera

Corporate communications

F McEwan
K McCormack

Company secretarial and legal

D F Calow
A J Harris

Investment bankers

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

Merrill Lynch
International
2 King Edward Street
London
EC1A 1HQ

Schroder Salomon Smith
Barney
Citigroup Centre
33 Canada Square
Canary Wharf
London
E14 5LB

Legal advisors

Allen & Overy
One New Change
London
EC4M 9QQ

Davis & Gilbert LLP
1740 Broadway
New York
NY 10019

Fried Frank
1 New York Plaza
New York
NY 10004

Hammonds
7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

MacFarlanes
10 Norwich Street
London
EC4A 1BD

Stockbrokers

Merrill Lynch
International
Corporate Broking
2 King Edward Street
London
EC1A 1HQ

West LB Panmure
Woolgate Exchange
25 Basinghall Street
London
EC2V 5HA

Auditors and accountancy advisors

Deloitte & Touche
180 Strand
London
WC2R 1BL

KPMG
1 Puddle Dock
London
EC4V 3DS

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Remuneration consultants

Deloitte & Touche
180 Strand
London
WC2R 1BL

Towers Perrin
355 Madison Avenue
New York
NY 10017-4605

Property advisors

Fulcrum Corporate
15-19 Great Titchfield
Street
London
W1W 8AZ

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

Jones Lang LaSalle
22 Hanover Square
London
W1A 2BN

Cushman & Wakefield Inc
51 West 52nd Street
New York
NY 10019-6178

How we behave

Directors' report

Corporate governance provisions

The Board of Directors is collectively accountable to the Company's share owners for good corporate governance and is committed to achieve compliance with the principles of corporate governance set out in the Combined Code of the Listing Rules of the Financial Services Authority.

As set out below and in the Report of the Compensation committee, the Board is also committed to assess the principles which form the basis of the Higgs Report on *The Review of the Role and Effectiveness of Non-executive Directors* ("Higgs Review") and also the Report submitted by Sir Robert Smith's group to the Financial Reporting Council. In addition, the Company agrees with and intends to implement the Hermes Principles. As the Higgs recommendations will only be introduced into the Combined Code for reporting years starting on or after 1 July 2003, the Company will review any areas of non-compliance during the remainder of 2003.

The Board confirms that the Company has complied throughout the year with the provisions set out in Section 1 of the Combined Code, save that the service agreement of the Group Chief executive, Sir Martin Sorrell, extends beyond one year for the reasons explained on pages 87 and 88.

The Company complies with the US Sarbanes-Oxley Act of 2002 and the regulations that relate to it, as they affect foreign registrants.



The Company has recently adopted new terms of reference for each of the Audit, Compensation and Nomination committees and these terms of reference will be available for inspection as referred to in the Notice of Annual General Meeting enclosed with this Annual Report.

Independence of non-executive directors

Of critical importance to the Company is the definition of 'independence' contained in the Higgs Review, which provides that a non-executive director is considered independent when "the board determines that the director is independent in character and judgement" and there are no relationships or circumstances which could affect, or appear to affect, the director's judgement. The Review lists a number of differing types of relationships.

The Board considers that the following non-executive directors are independent:

- **Esther Dyson;**
- **Michael Jordan** (member of the Audit committee);
- **Christopher Mackenzie** (member of the Compensation and Nomination committees);
- **Bud Morten** – Chairman of the Compensation committee, member of the Nomination and Audit committees and the senior independent non-executive director.

Notwithstanding his presence on the Board for a period in excess of nine years, the Board considers that Bud Morten remains independent and also has a critical role to play, particularly as chairman of the Compensation committee. His detailed knowledge in his capacity as chairman of this committee of the Company's compensation framework, including overseeing the Company's incentive programs such as the Leadership Equity Acquisition Plan (LEAP); the Capital Investment Plan (CIP) and the Notional Share Award Plan (NSAP) is vital given that all these plans mature in September 2004.

During 2003, as part of a planned transition process, it is intended that Bud Morten will step down as a member of the Audit committee. In December 2004 the Company will review his appointments to the Compensation and Nomination committees.

- **John Jackson** – Chairman of the Audit committee.

Similarly, the Board does not accept that a person of the experience and stature of John Jackson, ceases to be independent solely by reason of having served on the Board for a period in excess of nine years.

Mr Jackson's wide business experience makes him a well qualified chairman of the Audit committee. His expertise and knowledge of relevant legislation in both the UK and the US has been of great importance in overseeing the Company's interests in providing

continuity during the change of auditors from Arthur Andersen to Deloitte & Touche and during the introduction of an increased number of regulations in the US as a result of the Sarbanes-Oxley Act (in addition to the Smith Report).

The Board will review Mr Jackson's role as chairman of the Audit committee prior to the end of the current year.

- **David H Komansky** – is also considered by the Board to be independent. This is notwithstanding his former appointments with Merrill Lynch, one of the Company's principal investment bankers. Mr Komansky has retired from Merrill Lynch and has no residual business interests which are considered to prejudice his independence.

All of the above directors are independent under NASDAQ's existing rules and will remain so under such rules as they are proposed to be changed.

The chairman, Philip Lader was independent on his appointment in 2001.

Masao Inagaki is not considered to be independent by the Company, given the substantial cross-shareholdings between the Company and Asatsu-DK.

Jeremy Bullmore and John Quelch are not considered independent in view of the level of consultancy fees which they have received in addition to their respective fees as non-executive directors.

Board responsibilities

The Board of Directors is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs including 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 Board to the Group chief executive and the other executive directors.

For the year under review, Philip Lader was chairman of the Board, responsible for the leadership of the Board. 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 64 to 66.

All directors are kept fully informed of important developments in the various sectors in which the Group operates worldwide and regularly receive full information in relation to the Group operations, finances, risk factors and its people, enabling them to fulfil their obligations as directors. The directors are also advised as necessary on regulatory and best practice requirements which affect the Group's businesses on a global basis particularly in the US and the UK.

The Board meets at least six times a year and more frequently as necessary. With the exception of Masao Inagaki, the two non-executive directors who have now retired and, in respect of one meeting each, John Quelch and Christopher Mackenzie, there was full attendance at all meetings of the Board during 2002.

The executive directors held one meeting with senior executives of the Group's operating companies to discuss the development of the Company's strategy and this was reported to and debated by the Board.

In addition to the chairman, the Board consists of 13 directors of whom four are executive and nine are non-executive. As explained above the Board considers that six of the nine non-executive directors are independent.

The shareholdings of non-executive directors are set out on page 80 and details of their fees on page 79. Non-executive directors do not participate in the Company's pension plans, share option or other incentive plans. Non-executive directors may receive a part of their fees in ordinary shares of the Company. For technical reasons, these may be delivered in the form of options exercisable, at par value, on completion of the non-executive directors' services. In these respects, the Board considers that non-executive directors' remuneration conforms to the principles of the Higgs Review and the Combined Code.

The fees represent compensation in connection with Board and Board committee meetings, and where appropriate for devoting additional time and expertise for the benefit of the Group in a wider capacity. In this respect the Company regrets that under the Higgs Review, if a non-executive director receives any fees for giving additional time for the benefit of the Company, then they cease to be considered to be independent. The Board considers the approach under the NASDAQ Corporate Governance Proposals to be more realistic and beneficial to the Company in permitting a non-executive director who is not a member of the Audit committee to receive up to \$60,000 per annum for additional duties before he or she is considered to have ceased to be independent.

The following directors will retire from office but shall be eligible for re-election at the forthcoming Annual General Meeting:

- Appointed since the last Annual General Meeting – Beth Axelrod, Howard Paster and David H Komansky.
- Now aged 70 or over – Masao Inagaki, Jeremy Bullmore (also on the Board for 15 years) and John Jackson (also on the Board for 10 years).
- Directors for more than nine years – Bud Morten (12 years) and John Quelch (15 years).
- Retiring by rotation – Esther Dyson, Paul Richardson, Christopher Mackenzie and Michael Jordan.

The Board recommends that share owners vote in favour of the Resolutions to re-elect the directors to be proposed at the Annual General Meeting and set

out their reasons for this recommendation in the Appendix to the Notice of Annual General Meeting.

Details of directors' remuneration and service contracts form part of the report of the Compensation committee which commences on page 83.

Board committees

The Board has long-established Audit, Compensation and Nomination committees.

Audit committee

The committee currently comprises non-executive directors, whom the Company considers to be independent, namely: John Jackson (chairman of the committee), Michael Jordan and Bud Morten.

The Company also considers that all members of the committee are independent within the meaning of Rule 4200(a)(15) of NASDAQ's rules and the Company also meets the requirements of Rule 4350(d)(2) of NASDAQ's rules relating to its qualitative listing requirements. In particular, each current member of the committee is considered to be independent under NASDAQ's rules and has both the experience and background resulting in their respective financial sophistication. However, in relation to the report submitted by Sir Robert Smith's Group, whilst all three members of the committee are experienced and financially literate, none has acted as an auditor or finance director of a listed company.

In 2002 the committee met four times and all the then members attended the meetings. Michael Jordan was appointed to the committee in place of Jeremy Bullmore in January 2003. The meetings are also attended at the invitation of the chairman of the committee, in whole or in part, by the auditors, the Group finance director, the director of internal audit, the Company secretary and the Group general counsel.

The role of the committee includes:

- monitoring the integrity of the Company's financial statements, reviewing significant financial reporting judgements;
- reviewing internal financial control and risk management systems, as well as the internal audit function;
- the review and appointment of the external auditors and approval of their remuneration and terms of engagement;
- monitoring the review of the external auditors' independence, objectivity and effectiveness, taking into account relevant global professional and regulatory requirements;
- the approval in advance of the engagement of the external auditors in relation to the supply of permissible non-audit services, taking into account relevant ethical and regulatory guidance;
- monitoring accounting and legal reporting requirements, including all relevant regulations of

the UK Listing Authority, the Securities Exchange Commission, and NASDAQ with which the Company must comply;

- ensuring systems are in place to monitor social, environmental and ethical issues (other than those which are the responsibility of the Compensation committee) which may affect the Group;
- establishing procedures for the receipt and treatment of concerns regarding accounting, audit and internal audit matters, including confidential and anonymous submission by employees of such concerns.

Revised terms of reference were adopted by the committee in May 2003.

Compensation committee

The committee comprises non-executive directors, whom the Company considers to be independent and who are independent under NASDAQ's rules. Throughout the year the members were: Bud Morten (chairman of the committee), Philip Lader (replacing John Quelch in April 2002) and Christopher Mackenzie.

In 2002 the committee met six times on a formal basis and also held additional ad hoc meetings throughout the year. All members attended the formal meetings, except that John Quelch and Christopher Mackenzie each did not attend one meeting.

The committee received advice from the Company executives and external advisors referred to in the report of the Compensation committee on page 83.

The role of the committee includes:

- setting and reviewing the remuneration of executive directors and senior executives of the Company and of directors and senior executives of the operating companies. Remuneration includes base salary, short- and long-term incentive programs, pension and other benefits;
- reviewing terms of employment (including any termination arrangements) of executive directors and senior executives of the Company and of directors and senior executives of the operating companies;
- reviewing systems implemented throughout the Group to deal with matters such as employee harassment and discrimination;
- appointing and reviewing the performance of external advisors to the committee and to the Company in relation to executive remuneration and human resources matters.

Revised terms of reference were adopted by the committee in May 2003.

Nomination committee

The committee currently comprises both non-executive and executive directors. The Company considers the majority of the former (including the chairman for this purpose) to be independent. The present members are: Bud Morten (chairman of the committee), Philip Lader, Christopher Mackenzie, Sir Martin Sorrell (executive) and Beth Axelrod (executive).

Since the last Annual General Meeting held in June 2002, the committee met once on a formal basis and also held a number of ad hoc meetings throughout the year. All members attended the formal meeting, other than Christopher Mackenzie.

During 2002, the committee received advice from the Group general counsel and the Executive Compensation Consulting Practice of Deloitte & Touche.

The role of the committee includes:

- reviewing the size, composition and effectiveness of the Board;
- monitoring the responsibilities of non-executive directors, including the chairman;
- approving the appointment of all directors and ensuring the effectiveness of the process for Board succession;
- reviewing the effectiveness of non-executive directors and the performance of all directors who are offering themselves for re-appointment, whether retiring by rotation or by reason of having reached the age of 70 or having served on the Board for a period in excess of nine years;
- reviewing the effectiveness of the Audit and Compensation committees.

Revised terms of reference were adopted by the committee in May 2003.

Internal control

WPP operates a system of internal control, which is maintained and reviewed in accordance with the Combined Code and the guidance in the Turnbull Report as well as Rules 13a-14 and 15 of the Securities Exchange Act 1934. In the opinion of the Board, the Company has complied throughout the year with the Turnbull Report and has also complied with the relevant provisions of the Securities Exchange Act 1934.

The Board has overall responsibility for the system of internal control in the Group and has reviewed the effectiveness of the system during the year. In the context of the scope and complexity of this system, the Board can only give reasonable, but not absolute, assurance against material misstatement or loss.

The impact of the Higgs Review, which is expected to be incorporated into the Combined Code, is referred to on pages 68 to 70.

The principal elements of internal control are described below.

Control environment

WPP's system of internal control starts with the environment created by the Board. Quality and competence of employees, their integrity, ethics and behaviour are all vital to the maintenance of the Group's system of internal control. The Group's Code of Business Conduct sets out the principal obligations of employees. Directors and senior executives are required to certify their compliance with this Code each year. The WPP Policy Book includes the Code and human resource practices, as well as guidance on required practice in many operational areas. It is updated regularly and supported by the Board.

Risk assessment

At each Board meeting, the Group chief executive presents a 'Brand Check' review of each of the business' operations, incorporating a risk monitor, providing feedback on the business risks, as well as details of any change in the risk profile since the last Board meeting.

Each operating group has in place monthly and quarterly procedures and day-to-day management activities to review their operations and business risks. These are formally communicated to the Group chief executive in quarterly review meetings and, in turn, to the Board.

This is supported by risk management processes based on workshops held regionally for the significant businesses. During 2002, a number of workshops were conducted at individual operating company level to further improve the identification and communication of risk throughout the Group's organisational structure.

Risk monitoring is, therefore, embedded in the operation of the Company and the Board, in a manner which the Board considers is the appropriate way to respond to the Turnbull recommendations and the requirements of Rules 13a-14 and 15 of the Securities Exchange Act 1934. A formal update of the process is undertaken annually in conjunction with the director of internal audit and the completion of the self-certification questionnaire, described below.

Control activities and monitoring

Policies and procedures for all operating companies are set out and communicated in the WPP Policy Book, internal control bulletins and accounting guidelines. Their application is monitored within the businesses and by the Company's director of internal audit and his staff.

In addition, each operating unit completes an annual self-certification questionnaire confirming compliance

with key financial controls and procedures. These questionnaires are reviewed by the director of internal audit and the results are reported to the Audit committee.

Financial reporting

Each operating company 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 company.

The Group operates a rigorous procedure for the development of operating company budgets which build up to the Group's budget. During the final quarter of each financial year, operating companies prepare detailed budgets for the following year for review by the parent company. The Group's budget is reviewed by the Board before being adopted formally. Operating company results are reported monthly and are reviewed locally, regionally and globally by the business groups, by the Group on a consolidated basis and ultimately by the Board. The results are compared to budget and prior year, with full-year forecasts prepared and updated quarterly throughout the year. The Company reports to share owners four times a year.

Each year-end, all operating companies supply additional detail with their full-year financial results. This information is consolidated to allow the Group to present the necessary disclosures for UK and US GAAP reporting. Furthermore, a Disclosure committee has now been formed to add formality to the process of ensuring that publicly-released information, including this Annual Report, is free from material omission or misstatement. The committee comprises representatives from group reporting, legal, internal audit and investor relations departments.

Going concern

Under UK 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 2003 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

UK company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company

and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and consequently for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share owner relations

Relations with share owners, potential share owners and investment analysts are regarded by the Group as extremely important.

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. The Company also 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 (www.wppinvestor.com) providing investors with a regular source of information.

The following information, together with the directors' responsibilities and statement of going concern set out on pages 72 and 73 and the directors' remuneration and interests in the share capital of the Company set out on pages 79 and 80, constitute the Directors' report.

Substantial share ownership

As at 14 May 2003, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

WPP ESOP	4.97%
Morgan Stanley	4.73%
Franklin Templeton Investments	3.95%
Legg Mason	3.71%
Putnam Investments	3.56%
Legal & General	3.49%

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.

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 on page 70 and also in the Notice of Annual General Meeting.

Profits and dividends

The profit on ordinary activities before tax for the year was £205.4 million (2001: £411.0 million). The directors recommend a final ordinary dividend of 3.67p (2001: 3.06p) per share to be paid on 7 July 2003 to share owners on the register at 6 June 2003 which, together with the interim ordinary dividend of 1.73p (2001: 1.44p) per share paid on 18 November 2002, makes a total of 5.40p for the year (2001: 4.50p). The retained profit for the year of £25.5 million is transferred to reserves.

Parent company charitable donations

The Company made charitable donations of £210,000 (2001: £205,000). It is the Company's policy not to make payments for political purposes. Further information regarding the Group's support of charities is set out in the section dealing with Corporate Social Responsibility on pages 75 to 77.

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 the value of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 13, 14 and 15 on pages 114 to 116.

Share capital

Details of share capital movements are given in note 24 on pages 119 and 120.

Authority for purchase of own shares

At the Annual General Meeting in 2002 share owners passed a special resolution authorising the Company, in accordance with its articles of association, to purchase up to 114,958,361 of its own shares in the market. In the year under review, 12 million shares were purchased at an average price of £5.83 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 49 (2001: 42).

Auditors

The directors will propose a resolution at the Annual General Meeting to re-appoint Deloitte & Touche as auditors. ■

By Order of the Board
M W Capes
Company Secretary
14 May 2003

Corporate social responsibility



WPP believes that being socially responsible is not only morally right – it makes good business sense.

Social responsibility is an important factor in the management of brands and corporate reputation, a core area of our business. Our values help us to recruit and retain the most thoughtful and talented people. A strong record in Corporate Social Responsibility (CSR) attracts investment from the growing number of socially responsible investors.

Last year we carried out a global CSR survey. This was our first initiative to collect this kind of information from our 1,400 offices worldwide. In reporting WPP's record on CSR, we have therefore taken into account the activities and contributions of each of the operating companies as well as those of the parent company. The survey captured significant information from many Group companies across the world and we are now working to improve the reliability and coverage of future surveys. The data below and on page 76 relate to the calendar year 2001, except for training which is for 2002. In our next Annual Report, we plan to include data for both 2002 and 2003.

WPP in society

Key issues

Corporate Social Responsibility covers a wide range of subjects. We have reviewed these in the context of our business and believe that the most significant areas for us are: social investment, including donations and pro bono work (professional work at no, or minimal, cost); marketing ethics; and employee development. We also have a small environmental impact associated with our offices and business travel.

Overall, we believe that WPP makes a substantial, positive contribution to society through pro bono work and donations to charities and community organisations. We estimate the aggregate value to be over £12 million worldwide in 2001. In addition, many WPP operating companies encourage individual voluntary work which is undertaken, within reason, during the working week.

Management

Howard Paster is the director responsible for the implementation of WPP's CSR policy. The Board has divided responsibility for CSR between two Board committees, in conjunction with Howard Paster, to identify and manage CSR risks; the Audit committee, chaired by John Jackson, for social, ethical and environmental issues and the Compensation committee, chaired by Bud Morten, for employment issues including equal opportunities and harassment throughout the Group.

Corporate social responsibility (continued)

All directors and senior executives of operating businesses are required to sign an annual certificate of compliance with WPP's Code of Business Conduct referred to on page 72.

Progress

Last year we made five commitments on our CSR program. Here we report progress:

1 Adopt a Corporate Social Responsibility policy
Our policy was implemented by the Board and the heads of our operating companies in 2002.

2 Establish a performance baseline
We identified key performance measures and information requirements for social, ethical and environmental issues. Our major businesses completed a CSR survey giving details of their social and ethical activity and issues. The information received relating to environmental issues was incomplete. We intend to improve the quality of the environmental performance information by focusing on our largest offices worldwide. In 2004 we will report their main environmental impacts – energy use, waste paper recycling and air travel.

3 Identify best practice examples and communicate them across the Group
The CSR questionnaire highlighted many examples of pro bono and partnership work which will be published by the Company in a CSR Report in 2003.

4 Engage positively with socially responsible investors
We completed questionnaires from SRI funds and are listed in the Dow Jones Sustainability World Index and FTSE4Good Index. We explain on page 73 our relationship with share owners.

5 Develop and publish a plan for priority areas
This will be further developed during 2003. In total the WPP organisation contributed at least

£12.3 million worth of time, skills, materials and money to social and community causes in 2001.

WPP parent company

The parent company focuses its support on education and the arts.

Some of the educational initiatives supported include:

- India: Indian Business School.
- South Africa: sponsoring young copywriters and designers to attend the Red & Yellow School.
- UK: Charles Edward Brooke Girls' School, which specialises in media arts.
- UK: Royal College of Art annual illustration competition.
- UK: provision of two bursary awards for D&AD, the professional association for design and advertising.

WPP is a corporate patron of the National Portrait Gallery in London and supports the Media Trust which helps charities to communicate.

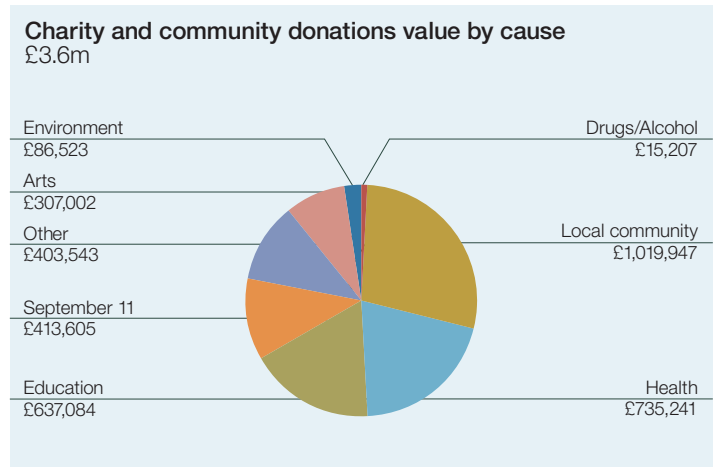
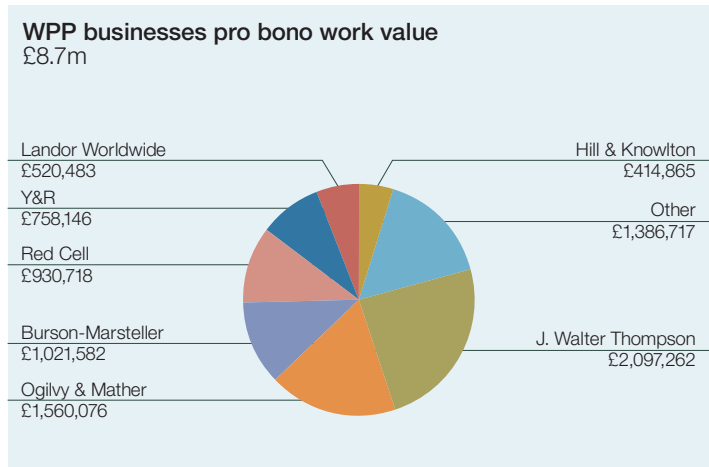
The leaders of our operating companies regularly give their time and skills to not-for-profit organisations.

WPP CEO Sir Martin Sorrell is an active participant in programs at the following international business schools: London Business School; Judge Institute of Management, Cambridge; IESE, Spain; Indian Business School; Harvard Business School and Boston University. Sir Martin is also a member of the UK's Council for Excellence in Management and Leadership.

WPP as an employer

Equal opportunities

The Compensation committee and the Group endorse and support 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 Group has implemented and maintained a non-discrimination policy since 1992.



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.

The Group's Code of Business Conduct referred to on page 72 contains practices in relation to human resource issues, such as harassment and discrimination and the Group has now adopted a policy to allow staff to report confidentially, and anonymously if desired, both on employee and financial issues.

We continue our long-standing commitment to gender diversity in the workplace. Beyond WPP's compliance with an explicit non-discrimination policy, we have a strong track record of women taking senior leadership positions within the Group.

Our CSR survey tracked gender equality in management across the businesses that participated in the survey:

- Women executive directors: 32%
- Women account directors: 53%

We are now reviewing the significance of this data for our businesses.

Employee ownership

The Group's Worldwide Ownership Plan, introduced in 1997, has given approximately 39,000 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 86.

People working in the Group currently own, or have interests in, approximately 81 million shares representing nearly 7% 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 businesses. Encouraging people to expand their knowledge of the Group is achieved through a number of communications initiatives:

- Periodic reports from WPP's Group 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*, WPP's global newspaper, *The WIRE*, and weekly *FactFiles* to all companies worldwide.
- A monthly online news bulletin – *e.wire*.
- Regular communications on major WPP initiatives such as the Worldwide Partnership Program, BRANDZ™, the Atticus Awards, the WPP Marketing Fellowship Program and professional development workshops.

- Ongoing development of our public website, our Groupwide intranet and our professional Knowledge Communities: Retail, Digital Communications, Media and Financial Services.
- Formal and informal meetings at the operating company level.

Professional development

Managing talent exceptionally well is at the heart of WPP's strategy. We have tremendous faith in the capacity of talented people to surprise even themselves in what they are capable of accomplishing, when nurtured and challenged to reach new heights. Their professional growth helps generate strong client satisfaction and improved business results.

This year we took further steps in expanding our executive development programs and sharpening our talent performance reviews. Building on a strong array of programs already in place, the parent company is planning the expansion of its executive development curriculum. New programs fostering creative leadership, client leadership and agency/firm leadership were identified. These and other courses are being rolled out over 2003 and 2004.

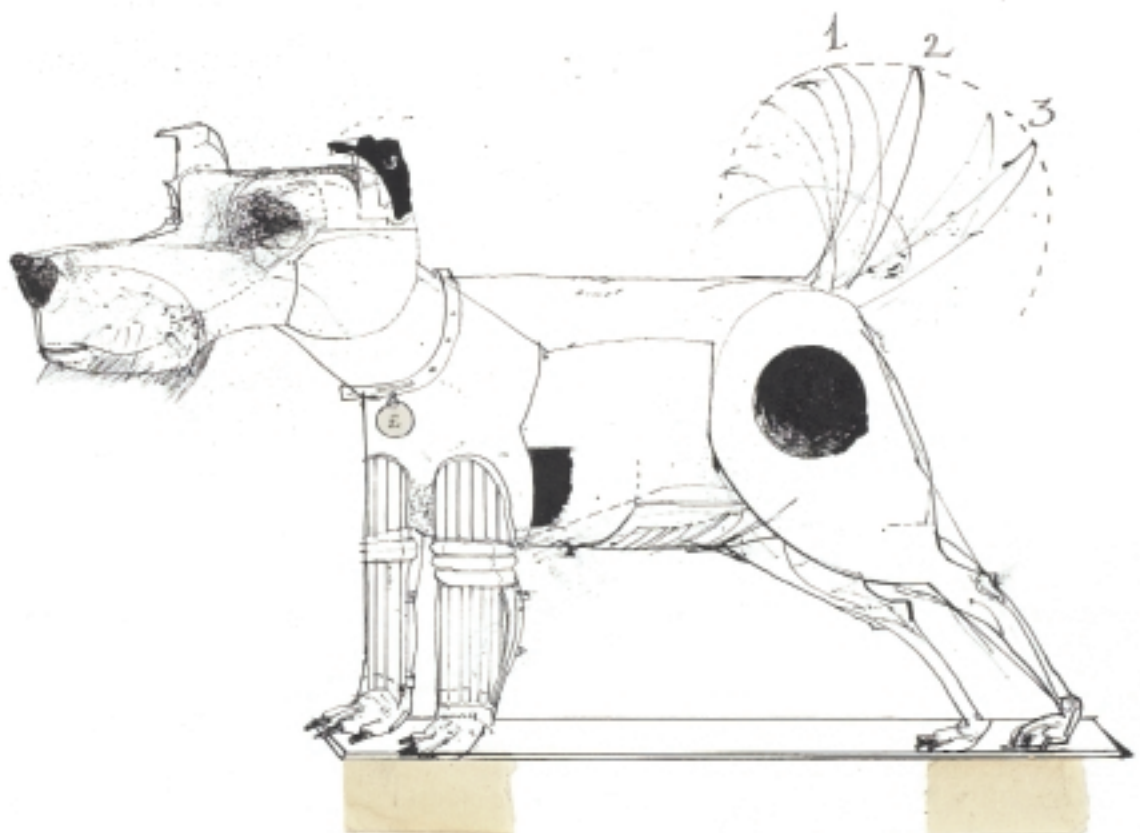
WPP also laid the groundwork for more systematic review of our people. Operating company CEOs will lead rigorous and development-focused reviews of their executive talent, with the key objective being to cultivate the exceptional capabilities of our leaders while assuring responsible succession planning. Coaching, mentoring, and deliberate job moves are essential by-products of the talent reviews planned for the year ahead.

We believe that investment in our people is mutually beneficial. Our training spend in 2002 was £21.4 million, equivalent to over £345 for every employee.

Employee 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 Nomination committee in the case of executive directors. Any fees receivable out of such appointments are retained by the individuals concerned. ■

How we're rewarded



HOW WE ARE REWARDED:

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 non-executive directors whom the Company considers to be independent (see page 69). The Compensation committee is advised by independent remuneration consultants as well as by Group executives referred to in the Report of the Compensation committee (prepared by the committee on behalf of the Board) on page 83. The information on this page in tabular form, and the relevant footnotes, and that on pages 80 to 82, form the part of the Report of the Compensation committee that is subject to audit.

The compensation of the chairman and other non-executive directors is determined by the Board, which is similarly advised.

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 83 to 91.

Remuneration of the directors was as follows:

Chairman	Location	Salary and fees £000	Other ⁷ benefits £000	Short-term incentive plans (annual bonus) ² £000	Restricted share award ² £000	2002 Total £000	2001 Total £000	Pension contributions	
								2002 Total £000	2001 Total £000
P Lader ⁵	USA	200	–	–	–	200	151	–	–
Executive directors									
M S Sorrell ^{2, 3, 5}	UK	839	24	–	731	1,594	873	336	339
B L Axelrod ^{1, 5, 8}	USA	244	40	66	–	350	–	–	–
B J Brooks ^{1, 5}	USA	329	5	–	–	334	236	33	25
P W G Richardson ^{5, 6}	UK	335	60	100	–	495	346	33	33
E R Salama ¹	UK	255	21	64	–	340	194	26	17
Non-executive directors									
J J D Bullmore ⁴	UK	76	12	–	–	88	77	–	–
E Dyson ⁵	USA	28	–	–	–	28	29	–	–
F W Hellman ^{1, 5}	USA	28	–	–	–	28	29	–	–
M Inagaki ⁴	Japan	–	–	–	–	–	–	–	–
J B H Jackson	UK	30	–	–	–	30	30	–	–
M H Jordan ⁵	USA	28	–	–	–	28	29	–	–
C Lewinton ^{1, 5}	USA	25	–	–	–	25	25	–	–
C Mackenzie	UK	25	–	–	–	25	25	–	–
S W Morten ⁵	USA	33	–	–	–	33	34	–	–
J A Quelch ^{4, 5}	USA	54	33	–	–	87	93	–	–
Total remuneration		2,529	195	230	731	3,685	2,171	428	414

Notes

¹ Brian Brooks resigned and Beth Axelrod was appointed a director in September 2002, having commenced her duties in May 2002. Eric Salama retired from the Board in October 2002 to take up his appointment as chairman and chief executive officer of Kantar in January 2003. Sir Christopher Lewinton and Warren Hellman retired from the Board in January 2003. All amounts shown above constitute the total amounts which the respective director received during 2002 and for the annual bonus in respect of 2002 but received in 2003.

² Amounts paid in 2003 in respect of bonus entitlements for 2002.

Sir Martin Sorrell and JMS declined their respective cash bonuses for the year ended 31 December 2002 and instead agreed with the Compensation committee an award of restricted shares. The restricted shares will be deliverable from the Company's ESOP no earlier than May 2005 (save in limited circumstances) and prior thereto will be subject to forfeiture in certain circumstances.

³ The amount of salary and fees comprise 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 88 and 89.

⁴ In addition to fees paid to them in 2002 as non-executive directors of the Company additional fees were received by Jeremy Bullmore £51,000 and John Quelch £26,000. Masao Inagaki is a director and chairman of Asatsu-DK.

⁵ All amounts payable in US dollars have been converted into £ sterling at \$1.5036 to £1. The amounts paid to Sir Martin Sorrell and Paul Richardson were paid part in US dollars and part in £ sterling.

⁶ Neither Paul Richardson nor the Company received any payment from Chime Communications PLC or STW Communications Group Limited in respect of his non-executive directorships in those companies.

⁷ Other benefits include healthcare, life assurance and allowances for cars, housing and club memberships.

⁸ Additional information concerning Beth Axelrod's service agreement and arrangements are referred to on page 89.

Directors' interests

Ordinary shares

Directors' interests in the Company's share capital, all of which were beneficial, were as follows:

	At 1 Jan 2002	Shares acquired through long-term incentive plan awards in 2002 ²		Movement ⁴ during 2002 inc. shares purchased in 2002	At 31 Dec 2002 or, if earlier, date of retirement from the Board	Shares acquired through long-term incentive plan awards in 2003 ²		Other interests acquired (disposed of) since 31 Dec 2002	At 14 May 2003
		Vested	(sold)			Vested	(sold)		
B L Axelrod ^{1, 4, 7}	–	–	–	25,000	25,000	–	–	–	25,000
B J Brooks ¹	390,298	48,430	(48,430)	(120,000)	270,298	n/a	n/a	n/a	n/a
J J D Bullmore	20,065	–	–	–	20,065	–	–	–	20,065
E Dyson	5,000	–	–	–	5,000	–	–	–	5,000
F W Hellman ¹	1,202,045	–	–	–	1,202,045	n/a	n/a	n/a	n/a
M Inagaki ⁵	–	–	–	–	–	–	–	–	–
J B H Jackson	12,500	–	–	–	12,500	–	–	–	12,500
M H Jordan	20,185	–	–	–	20,185	–	–	–	20,185
P Lader	5,000	–	–	3,950	8,950	–	–	–	8,950
C Lewinton ¹	21,745	–	–	–	21,745	–	–	–	n/a
C Mackenzie	10,000	–	–	–	10,000	–	–	–	10,000
S W Morten	20,000	–	–	–	20,000	–	–	–	20,000
J A Quelch	12,000	–	–	–	12,000	–	–	–	12,000
P W G Richardson ^{4, 7}	383,849	58,901	(58,901)	(35,000)	348,849	40,868	(40,868)	–	348,849
E R Salama ^{1, 4, 7}	443,454	46,290	(46,290)	–	443,454	n/a	n/a	n/a	n/a
M S Sorrell ^{3, 4, 7}	13,386,954	–	–	93,123	13,480,077	–	–	93,812	13,573,889

Notes

¹ See note 1 on page 79.

² Further details of long-term incentive plans are given in the notes on pages 81 and 82.

³ In the case of Sir Martin Sorrell (through JMS) interests include 1,571,190 and 577,391 unexercised phantom options granted in 1993 and 1994 respectively, details of which are set out in the table below. The period for exercise of the phantom options granted in 1993 has been extended to 31 December 2003. The Board intends to seek the approval of share owners at the Annual General Meeting to be held on 30 June 2003 to extend the period during which the 1993 phantom options may be exercised until 29 June 2006 and the period during which the 1994 phantom options may be exercised until 1 March 2007. Also included for Sir Martin Sorrell are 4,691,392 shares in respect of the Capital Investment Plan and 1,754,520 shares in respect of the Notional Share Award Plan, both of which have been held over until September 2004. As referred to in note 3 on page 81 Sir Martin Sorrell has deferred the vesting of 93,123 shares that arose in 2002 and 93,812 shares that arose in 2003 which would have otherwise have been due to him under the Performance Share Plan.

⁴ Each executive director has a technical interest as an employee and potential beneficiary in the Company's ESOP in shares in the Company held under the ESOP.

At 31 December 2002, the Company's ESOP held in total 58,210,657 shares in the Company (2001: 48,716,092 shares).

⁵ M Inagaki is a director and chairman of Asatsu-DK, which at 14 May 2003 was interested in 31,295,646 shares representing 2.71% of the issued share capital of the Company.

⁶ 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.

⁷ The above Interests do not include the unvested 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 86 and 87, although they do not include any matching shares which may vest under LEAP.

Share options

	Grant/Award Date	Exercise price	At 1 Jan 2002 (number shares)	Granted (lapsed) 2002 (number shares)	Exercised 2002 (shares)	Share price on exercise	Date: earliest exercise	Date of expiry	At 31 Dec 2002 (number shares)	Share price at 31 Dec 2002 (12 months high/low)
M S Sorrell	Apr 1993	52.5p	1,571,190	–	–	n/a	Apr 96	Dec 03	1,571,190	475p (811p/391p)
	Apr 1994	115p	577,391	–	–	n/a	Mar 04	Mar 04	577,391	475p (811p/391p)

The two awards shown in respect of Sir Martin Sorrell, relate to phantom option awards made to JMS in 1993 and 1994. (See note 3 above.) The award made in 1993 was in respect of 2,196,190 phantom options. JMS exercised 625,000 of the 1993 phantom options in 1997, leaving the current balance of 1,571,190 unexercised. As noted above the exercise period for the 2003 phantom option has been extended until 31 December 2003 and JMS has agreed not to exercise the 1994 phantom options before March 2004, subject to the further extension to be sought at the Annual General Meeting (see note 3 above) and subject also to good leaver and change of control provisions. Further details are given on page 88.

Other long-term incentive plan awards

Long-term incentive plan awards granted to directors comprise the Performance Share Plan (PSP) and the WPP Leadership Equity Acquisition Plan (LEAP). The operation of the PSP and LEAP are described on pages 85 to 87. Sir Martin Sorrell also has awards under the Notional Share Award Plan (NSAP) and Capital Investment Plan (CIP), which were granted in 1994 and Beth Axelrod has a Restricted Stock Award granted in 2002. Details of these awards are given in tabular form below, and are described on page 89.

Performance Share Plan awards to directors¹

	Grant Date	Share price on grant date (p)	At 01.01.02 (no. of shares)	Granted (lapsed) 2002 (no. of shares) ²	Performance period ends	Vested 06.03.02 (no. of shares)	Share price on vesting date (p)	At 31.12.02 (no. of shares)	Value received from vested awards (£)
B L Axelrod	02.09.02	473.0	–	38,402	31.12.03			38,402	
	18.09.02	421.0	–	52,645	31.12.04			52,645	
B J Brooks	21.02.97	249.5	15,050	142	31.12.99	(15,192)	775	–	117,738
	04.03.98	303.0	23,364	(11,572)	31.12.00	(11,792)	775	–	91,388
	22.09.99	568.5	50,623	(29,177)	31.12.01	(21,446)	775	–	166,207
	29.02.00	1,221.5	32,185	(32,185)	31.12.02			–	
	28.02.01	812.0	24,225	(24,225)	31.12.03			–	
P W G Richardson	21.02.97	249.5	16,796	159	31.12.99	(16,955)	775	–	131,401
	04.03.98	303.0	27,756	262	31.12.00	(14,009)	775	14,009	108,570
	22.09.99	568.5	65,944	(10,070)	31.12.01	(27,937)	775	27,937	216,512
	29.02.00	1,221.5	36,765		31.12.02			36,765	
	28.02.01	812.0	34,284		31.12.03			34,284	
	18.09.02	421.0		44,617	31.12.04			44,617	
E R Salama	21.02.97	249.5	13,997	132	31.12.99	(14,129)	775	–	109,500
	04.03.98	303.0	23,130	218	31.12.00	(11,674)	775	11,674	90,474
	22.09.99	568.5	48,359	(7,384)	31.12.01	(20,487)	775	20,488	158,774
	29.02.00	1,221.5	26,961		31.12.02			26,961	
	28.02.01	812.0	19,832		31.12.03			19,832	
	18.09.02	421.0		35,007	31.12.04			35,007	
M S Sorrell	22.09.99	568.5	219,812	(35,565)	31.12.01			184,247	
	29.02.00	1,221.5	137,255		31.12.02			137,255	
	28.02.01	812.0	88,611		31.12.03			88,611	
	18.09.02	421.0		115,319	31.12.04			115,319	

Notes

¹ Performance conditions: The performance condition relates WPP's Total Shareholder Return (TSR) to the TSR results for a comparator group of global marketing services companies. No vesting takes place if the WPP TSR is below the median TSR result for the comparator group and full vesting occurs if WPP TSR is at least equal to the second highest result within the comparator group. Between these levels, awards vest on a sliding scale according to TSR performance.

Details of the comparator groups which apply in respect of different awards are as follows (for companies which subsequently delisted, the date of delisting is shown in brackets).

- (i) For 2002 awards: Aegis Communications Group, Cordiant Communications, Grey Global Group, Havas Advertising, Omnicom, Publicis, Taylor Nelson Sofres and The Interpublic Group of Companies
- (ii) For 2001 awards, in addition to those listed at (i): True North Communications (delisted June 2002).
- (iii) For 2000 awards, in addition to those listed at (i) and (ii): AC Nielsen (delisted February 2001), Saatchi & Saatchi (delisted September 2000) and Young & Rubicam (delisted October 2000).
- (iv) For 1999 awards, in addition to those listed at (i) to (iii) above: Nielsen Media Research (delisted October 1999) and Snyder Communications (delisted September 2000).

A full description of the PSP is provided on pages 85 and 86. The TSR calculation, and the treatment of comparator companies which have delisted during the performance period is set out on pages 83 and 86 respectively.

² Includes dividends received, in respect of restricted stock where the performance conditions have been satisfied, reinvested in the acquisition of further ordinary shares or ADSs.

³ Sir Martin Sorrell deferred the vesting of 93,123 shares due to vest in 2002 and 93,812 shares due to vest in 2003 which would otherwise have been due to him under the Performance Share Plan.

How we're rewarded

Directors' interests (continued)

WPP Group: Leadership Equity Acquisition Plan¹

Name	Grant/award date	Share units (ADRs/Ords)	Number of matching units at 01.01.02	Granted (lapsed) 2002 (units)	Number of matching units at 31.12.02	Exercise price (per unit)	Option element		Bonus element	
							Earliest exercise	Expiry ²	Value at grant date (per unit)	Qualifying period ends
B L Axelrod ⁶	02.09.02	(ADRs)	–	76,500	76,500	\$36.98	01.02.07	01.04.07	\$36.98	01.01.07
B J Brooks	23.12.99	(ADRs)	54,520	(54,520)	–	n/a	n/a	n/a	\$52.84	n/a
	07.09.01	(ADRs)	15,480	(15,480)	–	n/a	n/a	n/a	\$46.50	n/a
P W G Richardson ³	23.12.99	(Ords)	299,030	–	299,030	£6.335	22.10.04	31.12.04	£6.335	22.09.04
	01.11.00	(Ords)	179,418	–	179,418	£9.25	22.10.04	31.12.04	£9.25	22.09.04
E R Salama ⁵	23.12.99	(Ords)	272,645	–	272,645	£6.335	22.10.04	31.12.04	£6.335	22.09.04
	07.09.01	(Ords)	77,355	–	77,355	£6.495	02.06.06	31.12.06	£6.495	02.05.06
M S Sorrell ⁴	23.12.99	(Ords)	5,369,070	–	5,369,070	£6.335	22.10.04	31.12.04	£6.335	22.09.04

Notes

¹ Form of award: LEAP participants are required to commit personal capital to the plan throughout the Investment Period. They are entitled to receive a maximum award of five shares for every Investment Share committed to the plan, subject to WPP TSR performance. Each LEAP unit is comprised of two separate elements: (i) a market value option over one share (ordinary or ADS); and (ii) a bonus unit, with a value equal to the lower of the exercise price of the option and the share/ADS price on the date payment is made. Both parts of the award are subject to the same performance and investment conditions. The bonus element and option element together are intended to deliver value equivalent to a free matching share. The number of share units noted in the table refers to the maximum number of shares (ADSs or ordinary) which may vest in respect of a particular award. Performance conditions: A full description of LEAP is provided on pages 86 and 87. All awards shown in the above table, with the exception of the second award made to Eric Salama and Beth Axelrod's arrangements, are dependent on WPP's TSR performance against a comparator group over the five-year period 1 January 1999 – 31 December 2003; maintenance of a participant's holding of Investment Shares and continued employment throughout the Performance Period. The comparator group is comprised of Aegis, Cordiant, Grey Advertising, Havas Advertising, The Interpublic Group of Companies, AC Nielsen, Nielsen Media Research, Omnicom Group, Publicis, Saatchi & Saatchi, Snyder Communications, Taylor Nelson Sofres, True North Communications, WPP and Young & Rubicam. The TSR calculation, and the treatment of comparator companies which have delisted during the performance period are set out on pages 83 and 86 respectively.

² To the extent that the performance conditions are satisfied, the option becomes exercisable for a three month period following the end of the Investment Period, the first and last dates of which are shown above. In accordance with US GAAP, any option not previously exercised may become exercisable, with no restriction other than continued employment with the Group for a period of six weeks prior to the tenth anniversary of grant, when it will expire.

³ Paul Richardson's award made in November 2000 is subject to a maximum match of three shares.

⁴ The number of Sir Martin Sorrell's matching shares includes those attributable to JMS.

⁵ The award to Eric Salama granted in September 2001 is subject to a Performance Period which runs from 1 January 2001 to 31 December 2005, and the comparator group for this award is comprised of: Aegis, Cordiant, Grey, Havas, IPG, Omnicom, Publicis, Taylor Nelson Sofres, True North and WPP.

⁶ As explained below and on page 89, the award made to Beth Axelrod was made under special arrangements, on similar terms as LEAP, approved by the Compensation committee in contemplation of her appointment. The award is subject to a reduced level of match (ie without the minimum half-share), and has been made in tandem with an award of Restricted Stock, referred to below. The Performance Period for the award is the five-year period 1 January 2002 to 31 December 2006. The comparator group for the purposes of the TSR measurement is comprised of Aegis, Cordiant, Grey, Havas, IPG, Omnicom, Publicis, Taylor Nelson Sofres, True North and WPP.

ADR/share price at year end and during the year

	31.12.02	12 month high	12 month low
ADR	\$37.88	\$58.50	\$30.16
Ordinary	£4.75	£8.11	£3.91

WPP Group: Special Restricted Stock Award to Beth Axelrod

Name	Grant/award date	Share units (ADRs/Ords)	Number of units at 01.01.02	Granted (lapsed) 2002 (units)	Number of units at 31.12.02	Exercise price (per unit)	Option element		Bonus element	
							Earliest exercise	Expiry ⁽²⁾	Value at grant date (per unit)	Qualifying period ends
B L Axelrod	02.09.02	(ADRs)	–	8,500	8,500	\$36.98	01.02.07	01.04.07	\$36.98	01.01.07

Under arrangements to facilitate her recruitment, Beth Axelrod has been made a special award of restricted stock. As explained on page 89, this award is made in tandem with her LEAP award. The award of restricted stock is subject to continued employment with the Group without any further performance condition, except that it will lapse to the extent that the participant's investment requirement under the LEAP award is not met. In addition, if her employment ceases other than by resignation or termination for cause, the award will be reduced pro-rata according to the proportion of the vesting period which has elapsed when employment ceases. The restricted stock award is made in the same form as LEAP awards referred to above.

Notional Share Award Plan (NSAP) and Capital Investment Plan (CIP): Awards to JMS and Sir Martin Sorrell

	Grant Date	Share price on grant date	At 01.01.02 (no. of shares)	Granted (lapsed) 2002 (no. of shares)	Qualifying/Performance period ends	Vested 2002 (no. of shares)	Share price on vesting date	At 31.12.02 (no. of shares)	Value received from vested awards
NSAP ¹	04.09.94	120p	1,754,520	–	30.09.04	–	–	1,754,520	–
CIP ¹	04.09.94	120p	4,691,392	–	30.09.04	–	–	4,691,392	–

Notes

¹ These awards represent the number of shares, or cash equivalent of shares, which vest under the CIP and the NSAP. Details of these plans are set out on page 89. 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 had made payments of which the maximum amount outstanding during the year was \$567,000. This amount was repaid in full prior to 31 December 2002 and the arrangement has ceased.

Compensation committee report on behalf of the Board

Introduction

This report is made by the Board, prepared on its behalf and for its approval by the Compensation committee.

It sets out the Company's statement of how it has applied the principles of good governance set out in the Combined Code in respect of Compensation matters and explains any areas of non-compliance. As in previous years, additional information on executive remuneration, based on a US-proxy style disclosure is also included in this report.

The report of the auditors on the financial statements set out on page 133 confirms that the scope of their report covers, where required, the disclosures contained in or referred to in this report that are specified for their audit by the UK Listing Authority and under the Companies Act.

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 79 to 82. These details form part of this report.

The Company has for several years now, sought the approval of its share owners for its remuneration policy, which this year is set out on page 84. Legislation now requires companies to put the Compensation committee report to the vote at their Annual General Meetings and the appropriate resolution is set out as resolution 8 in the Notice of Annual General Meeting.

In this report references to 'total shareholder return' (TSR) mean the percentage change in the share price over the performance period, taking into account dividends reinvested, and is calculated using external data sources, such as Datastream or Bloomberg and using an appropriate and recognised methodology.

Remit of the Compensation committee

During the year, the Compensation committee comprised the chairman of the Company (Philip Lader) and non-executive directors considered by the Board to be independent, other than John Quelch who ceased to be a member in the course of the year. The following directors served on the committee during the year and took decisions in respect of the year:

- S W Morten (chairman of the committee);
- C Mackenzie;
- P Lader (appointed April 2002);
- J A Quelch (retired April 2002).

No current member of the committee has any personal financial interest, other than as a share owner, 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 regularly consults with Group executives, particularly the Group chief executive (Sir Martin Sorrell) and the Group chief talent officer (Beth Axelrod). The committee appointed Deloitte & Touche as advisors and received material assistance from that firm's Executive Compensation Consulting Practice. Deloitte & Touche are also engaged as the external auditors to the Company. As such the appointment as remuneration advisors is also subject to, and has received, pre-approval by the Audit committee. Information on other services provided by Deloitte & Touche is given in note 2 to the accounts. Arthur Andersen provided the same services to the committee during part of the year. Advice on the remuneration of the chairman and the non-executive directors was provided by the same advisors to the Board and not to the committee. Advice is received by the committee on a wide range of relevant issues including:

- assessment of competitive compensation 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');
- pensions and executive benefits;
- contract terms for executives;
- governance issues relating to compensation or the role of the committee.

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.

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on pages 88 and 89, 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, 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.

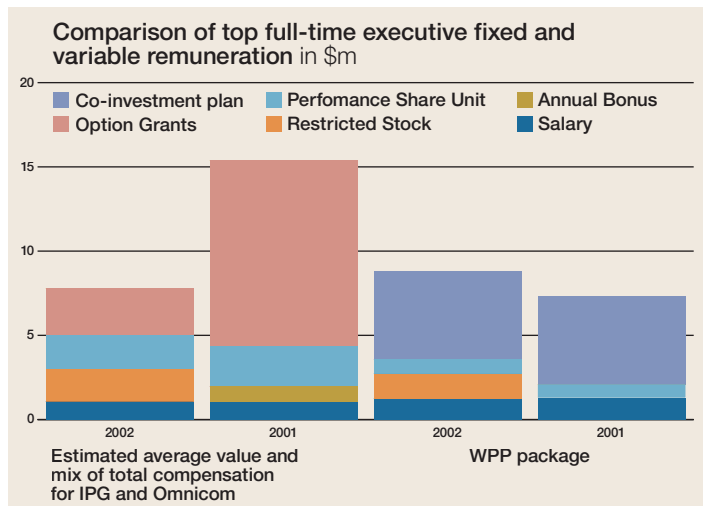
The Compensation committee is also responsible for reviewing the terms of employment of executive directors and senior executives of the operating companies including the terms of any termination arrangements of any of these people.

Policy on remuneration of executive directors and senior executives

The following policy applies for the financial year 2003 and, subject to review, for future years. 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 policy is designed to attract, retain and motivate the best available talent, so that it can meet client and share owner objectives. In particular, the committee has regard to the levels of compensation in the Group and specific businesses with which the Group companies compete and is also sensitive to compensation levels in the wider business community.

Importance is placed on practices elsewhere in the global communications services sector. The nature of this sector means that practice is driven by the executive remuneration market in the US. The committee pays particularly close attention to the structure of remuneration, and the proportion which is performance-related, as well as to the proportions linked to short- and long-term performance. As an illustration, the chart below (using data from the most recently available filings for those companies) summarises practice for chief executive officers in the Company's two largest competitors: Omnicom and IPG. This is compared with that role in the Company.



The chart provides a comparison of the potential value of Sir Martin Sorrell's total remuneration against the benchmark set by CEO remuneration at IPG and Omnicom in the financial years 2001 and 2002. Further, it demonstrates the relative importance of variable and performance-related elements of remuneration.

The values represent WPP's analysis of the data disclosed by IPG and Omnicom in the accounting periods ended 31 December 2001 and 2002. All share-based payments are valued assuming annual share price growth of 10% over a five-year term. For the purposes of

estimating the impact of vesting conditions, performance-related elements of competitor remuneration are shown at the higher of the 'threshold' value (at which awards begin to pay out for a minimum performance) or 50% of the maximum.

This analysis considers all awards made in respect of 2001 and 2002 but excludes the potential value from the large 'one-off' option award made by Omnicom in 2001 which is not shown. However, in respect of WPP, the attributable value (assuming a vesting at median) of Sir Martin Sorrell's LEAP award (made in 1999) is included. No adjustment has been made to reflect the significant capital investment that is required to participate in this plan.

To implement the Company's policy, executive remuneration is designed to be consistent with 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/variable element;
- incentives are based on meeting specific, measurable and stretching performance objectives, and align executive rewards with creating value for our share owners;
- the total remuneration program includes significant opportunities to acquire WPP stock, consistent with the Group strategy of co-investment and building a strong ownership culture.

The Company believes that a significant proportion of remuneration for executive directors and senior executives should be delivered through performance-related elements, such as the annual bonus awards and stock-based incentive awards, as referred to below. For target performance the committee would expect at least 60% of an executive director's remuneration to be performance-related.

The Company has required senior executives to achieve stock ownership goals for many years, as a result of which awards of stock options vary depending on whether individuals achieve and maintain specific levels of ownership of WPP stock.

In determining the remuneration, stock incentive arrangements and benefits for all of the current executive directors, the Board accepted the proposals and recommendations of the Compensation committee without change.

Elements of executive remuneration

The principal elements of executive remuneration for the current year and, subject to review, for future years, comprise the following:

- Base salaries (fixed);
- Annual incentives (variable);
- Long-term incentives (variable); and

- Pension, life assurance, health and disability and other benefits (fixed).

Base salary

The salary is based on individual performance and by reference to the market median for similar positions in directly comparable companies as well as taking into account comprehensive market survey information. In the case of the parent company, this includes other global communication services companies such as IPG and Omnicom. 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 at least every 18 or 24 months, depending on the level of base salary. Executive salary adjustments are made by the committee following consultation where appropriate with the Group chief executive, the Group chief talent officer and the chief executive officer of each operating company.

Annual performance bonus

The annual performance bonus is paid under plans established for each operating company and for executives of the parent company. Challenging performance goals are established and these must be achieved before any bonus becomes payable.

In the case of the Group chief executive and other parent company directors and executives, the total amount of annual performance bonus payable is based on the achievement of Group operating profit and operating cash flow targets. Additional targets may also be imposed on the awards to individual directors and executives. These are determined by the Compensation committee following detailed analysis with the Group chief executive and the Group chief talent officer. In the case of each operating company, operating profit, operating profit margin targets and staff cost ratios are agreed each year with the Group chief executive and approved by the committee.

Within the limits of annual incentive funds available in respect of each operating company, 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;
- conducting talent reviews, succession planning 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. The target level for the Group chief executive is 100% of base fee/salary and the maximum level is 200%. For other Group executive directors the target is 50% of base salary and the maximum is 75%. Those eligible to receive an annual performance bonus, may, subject to satisfying specific conditions, elect to defer their bonus for four years, converting it into an award of shares. The value of this share award is equal to 125% of the bonus that would otherwise have been received earlier had it been taken in cash.

Long-term incentives

Long-term incentives, including stock awards, comprise a significant element of total remuneration for senior executives in the parent company and each operating company. During 2002, approximately 1,500 of those executives participated in some form of performance-related long-term incentive program.

The committee reviews each year the operation of the Group's long-term incentive programs to ensure that the performance measures and levels of reward are appropriate and competitive.

Any long-term incentive program in which an executive director is entitled to participate is subject to performance conditions with the exception of one deferred share award made to Beth Axelrod on her appointment as Group chief talent officer (but prior to her appointment to the Board) as referred to on page 89.

Parent company : Performance Share Plan (PSP)

Annual grants of WPP performance shares are made to all executive directors (see the table on page 81) and other senior executives in the parent company. 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 (TSR) relative to the growth of TSR of a comparator group of major publicly traded marketing services companies on the basis that this is the best indicator of value creation for share owners. 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. The peer companies in respect of awards made in 2002

comprise Aegis, Cordiant, Grey Global, Havas Advertising, IPG, Omnicom, Publicis and Taylor Nelson Sofres.

Over the 2000-2002 performance period, WPP's performance ranked fourth among the peer group companies. Contingent grants of performance shares for the 2001-2003 and 2002-2004 periods range from 25% to 100% of base salary.

Operating companies: Long-term incentive plans

Senior executives of most Group operating companies participate in their respective company's long-term incentive plans, which historically have provided awards in cash and restricted WPP stock based on the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis with awards paid in March 2003 under the 2000-2002 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 profit before tax; and
- average operating margin.

Historically the stock portion of each payment has been 50%. Restrictions on the sale of this stock are lifted after one year following the end of the relevant performance period in respect of half of the stock and after two years for the balance, provided that the executive remains employed in the Group.

With effect from 2003 it is proposed that operating companies' long-term incentive plans will provide awards to be satisfied wholly in WPP stock to be paid in the March following the end of the three-year financial performance period, with no subsequent restriction on sale.

Executive Stock Option Plan and Worldwide Ownership Plan

The Executive Stock Option Plan has been used annually since its adoption in 1996 to make option grants to members of the WPP Group Leaders, Partners and the High Potential Group as well as key employees of the parent company, but excluding parent company executive directors and the Group chief executive.

In 1997 the Company broadened stock option participation by introducing the Worldwide Ownership Plan for all employees (other than those participating in other option programs) of 100%-owned Group companies with at least two years' service, in order to develop a stronger ownership culture. Since its adoption, grants have been made annually under this plan and as at 14 May 2003 options under this plan had been granted to approximately 39,000 employees for over 17.8 million ordinary shares of the Company. Further details of employee share ownership are set out in the section on Corporate Social Responsibility on page 77.

WPP Group: Leadership Equity Acquisition Plan ('LEAP')
LEAP is an incentive plan introduced in 1999 to reward superior performance relative to WPP's peer companies, to align the interests of executive directors and key executives with those of share owners through significant personal investment and ownership of stock and to ensure competitive total rewards. Awards made to executive directors are set out on page 82.

Under LEAP, participants must commit WPP shares ('investment shares'), valued at not less than their annual earnings, at the time of acquisition, with a maximum of no more than two-thirds being satisfied by a participant's existing holding of WPP shares, in order to have the opportunity to earn additional WPP shares ('matching shares'). The 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 depends on the performance of the Company measured over five financial years. The number of matching shares is calculated based on the TSR achieved by the Company relative to other major publicly traded marketing services companies on the basis that this is the best indicator of value creation for share owners.

The comparator group comprises those companies specified on page 82. Where a company has delisted it is not included in the comparator group for further awards. For the purposes of measuring TSR performance where a company has delisted during a performance period, the committee deem this to be a disposal and the proceeds are treated as being reinvested in the stock of the remaining companies.

The maximum number of matching shares, other than in respect of a part of the supplementary award to Paul Richardson (see note 3 on page 82) and certain participants 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 half a matching share will vest for every investment share held throughout the investment period, in recognition of a participant's maintenance of their personal investment throughout the period.

Certain executives of Young & Rubicam Inc participate in LEAP over a four-year time period and their entitlement to matching shares has been pro-rated so that they are entitled to only four-fifths of the number of matching shares to which the other LEAP participants may become entitled. Consequently the maximum number of matching shares to which these 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 is consistent with the achievement of commensurate underlying performance.

Particulars of Beth Axelrod's participation in LEAP are set out on page 82.

Sir Martin Sorrell, the Group chief executive, together with JMS, committed to LEAP investment shares worth \$10 million calculated at a price of £5.685 per share of which investment shares worth at least \$3 million were purchased in the market.

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 the original awards 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.

It is not intended that any further awards will be made under LEAP. The Board expects to submit a new incentive plan for the approval of share owners in or before October 2003. Any new plan will provide a successor plan to LEAP and will relate to executive directors of the Company and key executives in the Group's operating companies.

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 total executive remuneration levels.

In the two markets where the Group employs the largest number of people, the US and the UK, pension provision generally takes the form of defined contribution benefits, although the Group still maintains various defined benefit plans and arrangements primarily in the US and 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 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 executive directors are set out on page 79.

Policy on directors' service contracts, notice periods and termination payments

The Compensation committee annually considers the Company's policy on the length of notice periods in executive directors' service contracts and payments on termination of such contracts. The committee is agreed on the objective to reduce notice periods for executive directors to 12 months. This can only be achieved when existing legal obligations permit and when the committee considers it appropriate to do so, taking into account circumstances which it believes to be important to the interests of the Company and its share owners for an exception to be made.

There were no payments in respect of termination of employment of executive directors, and there are no entitlements to receive such payments, other than as referred to below.

For the reasons explained below, the committee unanimously believe that an exception should be made to the 12-month notice period provision, in the case of the Group chief executive Sir Martin Sorrell.

The notice periods for executive directors are as follows:

Director	Contract date	Unexpired term/Notice period
Sir Martin Sorrell	14 July 2001	31 August 2005 36/24 months
Beth Axelrod	28 March 2002	12 months
Howard Paster	1 Jan 2002	31 December 2005 then 6 months
Paul Richardson	25 June 2002	12 months

Eric Salama who retired from the Board in 2002 to take up his appointment in the Group as chairman and chief executive officer of Kantar and Brian Brooks who resigned from the Board in 2002 had service agreements respectively dated 25 June 2002 and 1 June 1993 both of which contained 12-month notice periods. Neither Eric Salama nor Brian Brooks received any compensation payment upon their retirement from the Board.

All new appointments are intended to have 12-month notice periods, but it is recognised that, for some appointments, a longer period may initially be necessary for competitive and other reasons, reducing to 12 months thereafter.

The notice provisions in Sir Martin Sorrell's contract provide for a fixed term of three years renewable on or before 1 September each year. The contract was renewed on 1 September 2002 and is due to expire on 31 August 2005. Sir Martin's contract has been on this basis since September 1994 when he made a substantial investment in the CIP.

By September 1999 Sir Martin and JMS were entitled to a prospective benefit under a number of plans in respect of which the performance conditions had been satisfied prior to September 1999, namely the CIP; the

Compensation committee report on behalf of the Board (continued)

NSAP and phantom options granted in 1993 and 1994. In September 1999 in addition to making a further substantial commitment to LEAP, Sir Martin also deferred the right to take the benefit of all of his outstanding awards (other than the phantom options) so that they lapsed if he left the Group other than in special circumstances, such as good leaver, until the expiration of the LEAP Investment Period in September 2004.

Given the substantial commitment made by Sir Martin, the committee believes that it is appropriate to have extended the term of Sir Martin's contract for a period currently expiring 12 months after the end of the LEAP Investment Period.

In addition these terms are consistent with practice in the US for other comparable executive roles, as is seen from Howard Paster's contract which is US-based and entered into prior to his appointment to the Board.

Both Sir Martin's UK Agreement and US Agreement may be terminated by JMS or Sir Martin respectively within a period of 90 days following a change of control. On receipt of notice to terminate on a change of control, Sir Martin is entitled to receive an amount equal to twice the annual salary, fee and pension contribution due under the agreements. In these agreements 'control' is as defined respectively in section 416 of the Income and Corporation Taxes Act 1988 and Rule 13d-3 of the Securities Exchange Act 1934.

On a wrongful termination by the Company of the UK Agreement and the US Agreement, WPP is obliged to pay an amount equal to twice the annual salary and fee, target bonus and pension contribution due under the UK and US Agreements and also to continue certain benefits such as health insurance under the US Agreement.

In addition to the substantial investments in the Company made by Sir Martin, he has also entered into covenants, which apply for the period of 12 months following termination of the UK Agreement and the US Agreement, under which he has agreed not to compete with any business carried on by the Company or any member of the WPP Group, nor to solicit business or custom or services from major clients or clients with whom he was involved. The covenants also include an obligation not to induce employees to cease employment with the Company or any member of the WPP Group.

Other contract provisions relating to Sir Martin Sorrell

Sir Martin Sorrell's services to the Group outside the US are provided by JMS and he is directly employed by WPP Group USA, Inc for his activities in the US. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with Sir Martin directly ('the US Agreement') provide for the following remuneration all of which is disclosed on pages 79 to 82:

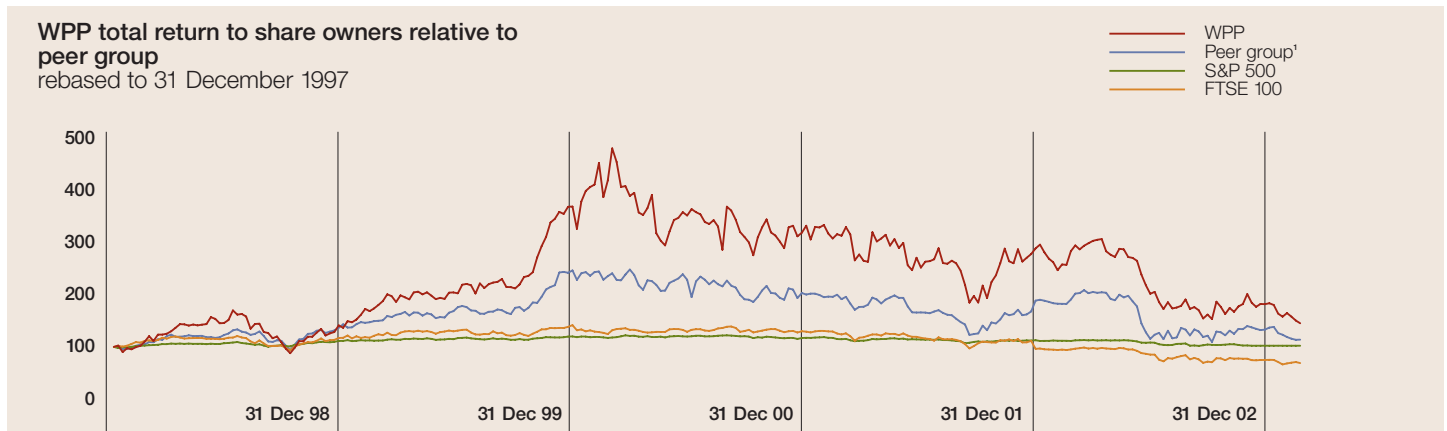
- annual salary and fees of £839,000;
- annual pension contributions of £336,000;
- short-term incentive (annual bonus) of 100% of annual salary and fees at target and up to 200% at maximum;
- the Leadership Equity Acquisition Plan; and
- the Performance Share Plan.

The Board intends to propose a resolution at the Annual General Meeting under which the periods during which the 1993 and 1994 phantom options can be exercised would be extended for a period of three years (see note 3 on page 80), but would otherwise continue to be held on identical terms as at present. In the interim, the Compensation committee has

Five-year performance graph

As required by UK company law and for share owners' information, the Company's TSR for the five years to 31 December 2002 is shown on the graph below.

The indices shown are those the Board considers most relevant for the purposes of comparison, on the basis that these are the indices containing the companies with whose performance that of the Company is most commonly compared.



Notes
¹ Peer group comprises Cordiant, IPG, Omnicom, Grey Global, Euro RSCG, Asatsu, Aegis, Saatchi & Saatchi and Taylor Nelson Sofres.

agreed to extend the period during which the 1993 phantom options may otherwise be exercised until 31 December 2003.

Details of the phantom options granted to JMS are set out on page 80. No further phantom options have been or will be granted to JMS or to Sir Martin Sorrell.

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, bonus and pension contribution is drawn by Sir Martin Sorrell from JMS.

The CIP provided 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.

Sir Martin Sorrell 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 as referred to above, 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 NSAP 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 acquired in September 1994.

Special arrangements on appointment of a director

Following her appointment as Group chief talent officer but prior to her appointment as an executive director, the Compensation committee approved special arrangements for Beth Axelrod, which permitted her to become eligible to receive certain awards over WPP shares. These arrangements may only be satisfied using shares acquired by the WPP ESOP in the market. They are arrangements specifically established for the sole purpose of dealing with the circumstances of her recruitment, including the need to hold WPP shares to participate in other incentive arrangements.

They included:

- A special award of restricted stock in respect of 42,500 WPP shares referred to on page 82;
- An award in lieu of an award under LEAP, on similar terms as LEAP referred to on page 82.

Neither of these awards can be altered to Beth Axelrod's advantage without the prior approval of share owners.

Beth Axelrod's contract does not provide for any form of payment on a termination of employment. However, in order to facilitate her recruitment the Company did guarantee a minimum STIP payment of \$150,000 for each of 2002 (pro-rated from her commencement in May 2002) and 2003.

Non-executive directors

Each of the following non-executive directors have been appointed for terms of three years respectively: Philip Lader; Jeremy Bullmore; Esther Dyson; John Jackson; David Komansky; Christopher Mackenzie; Bud Morten; John Quelch and Masao Inagaki. Michael Jordan has been appointed for a term of two years.

Compensation committee report on behalf of the Board (continued)

Compensation of executive officers

The information comprised in the following four tables sets out the 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 2002 (the 'executive officers'). The information is in addition to the disclosure required under UK legislation and regulations. 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 2002 and 2001. Incentive compensation paid in 2003 for performance in 2002 and previous years, is not included in these tables, in a format similar to a US-proxy style. The bonus payments referred to below are payments made in 2002 and 2001 under the short-term incentive awards for performance in 2001 and 2000 respectively.

2002 executive remuneration

Name	Principal position	Year	Salary \$000	Bonus ¹ \$000	Other annual compen- sation ² \$000	Long-Term compensation			All other compen- sation ⁴ \$000
						Share options SARs and phantom ADS ³ Number	Restricted ADS ⁵ Number	LTIP Cash payments \$000	
M S Sorrell	Group chief executive WPP Group	2002	1,261	–	36	–	23,064 ⁶	–	505
		2001	1,223	1,875	35	–	17,722	–	490
S Lazarus	Chairman/ Chief executive officer Ogilvy & Mather Worldwide	2002	850	925	36	82,831	36,267	333	1,445
		2001	850	775	57	70,661	49,688	315	128
P Schweitzer	President/ Chief executive officer J. Walter Thompson Company	2002	750	–	51	39,548	4,830	276	352
		2001	733	325	54	28,265	4,168	253	88
M J Dolan ⁷	Chief executive officer Young & Rubicam Inc	2002	800	–	18	24,096	–	–	13
		2001	800	800	19	22,612	–	–	13
I Gotlieb	Chairman/ Chief executive officer MindShare	2002	750	300	21	45,180	6,562	375	38
		2001	750	625	21	–	–	–	32
H Paster	Executive vice president Public relations & Public affairs	2002	700	–	16	18,072	1,996	114	12
		2001	550	350	17	16,959	1,846	112	23

Notes

¹ Represents short-term incentive awards paid during calendar years 2002 and 2001 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.

⁴ Includes accruals during each calendar year under consideration, under defined contribution retirement and defined benefit retirement arrangements. In relation to Shelly Lazarus this includes a special award to the sum of \$797,000.

⁵ Includes awards of restricted stock under the PSP and LTIP programs. Matching shares which could vest under LEAP are not included in this table, but are referred to on page 82.

⁶ This represents Sir Martin Sorrell's Performance Share Plan award, expressed in ADSs. The award is denominated in ordinary shares.

⁷ In 2001, Mr Dolan also received \$800,000 as a stay bonus under a previous service agreement and an additional payment of \$4.2 million in respect of the change of contract provisions included in that agreement, in satisfaction of rights granted to him under the Young & Rubicam Change of Central Severance Plan adopted in December 1999 and prior to the merger between the Company and Young & Rubicam taking place.

Compensation committee report on behalf of the Board (continued)

Options granted in 2002

	Stock options, granted (number of ADSs)	% of total options granted by Company in 2002	Exercise price (\$ per ADS)	Expiry date	Potential realisable value at assumed annual rates of stock price appreciation for option term		
					0% \$	5% \$	10% \$
M S Sorrell	–	–	–	–	–	–	
S Lazarus	82,831	2.3%	\$32.20	19 Sep 2012	–	1,729,453	4,382,775
P Schweitzer	30,120 9,428	0.8% 0.3%	\$32.20 \$53.03	19 Sep 2012 31 May 2012	–	628,885 314,427	1,593,717 796,818
M J Dolan	24,096	0.7%	\$32.20	19 Sep 2012	–	503,108	1,274,974
I Gotlieb	45,180	1.2%	\$32.20	19 Sep 2012	–	943,327	2,390,575
H Paster	18,072	0.5%	\$32.20	19 Sep 2012	–	377,331	956,230

All options granted to executives in this table are exercisable three years from the grant date and expire 10 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	10,674,979	3,341,910
S Lazarus	–	–	810,231	846,495	2,529,675	564,302
P Schweitzer	–	–	70,191	512,200	126,532	742,648
M J Dolan	–	–	3,385,360	233,540	9,145,237	169,299
I Gotlieb	–	–	484,130	225,900	–	211,442
H Paster	–	–	383,569	218,625	1,312,664	126,974

Notes

¹ The value is calculated by subtracting the exercise price from the fair market value of the Company's ordinary shares on 31 December 2002, namely £4.745 or the value of the Company's ADSs, namely \$37.88 and using an exchange rate of \$1.61 to £1.

Long-term incentive plan grants in 2002⁽¹⁾

	Performance period	Threshold \$	Target \$	Maximum \$
M S Sorrell	n/a	n/a	n/a	n/a
S Lazarus	2002 – 2004	–	650,000	975,000
P Schweitzer	2002 – 2004	–	700,000	1,050,000
M J Dolan	2002 – 2004	–	500,000	750,000
I Gotlieb	2002 – 2004	–	750,000	1,125,000
H Paster	2002 – 2004	–	275,000	412,500

Notes

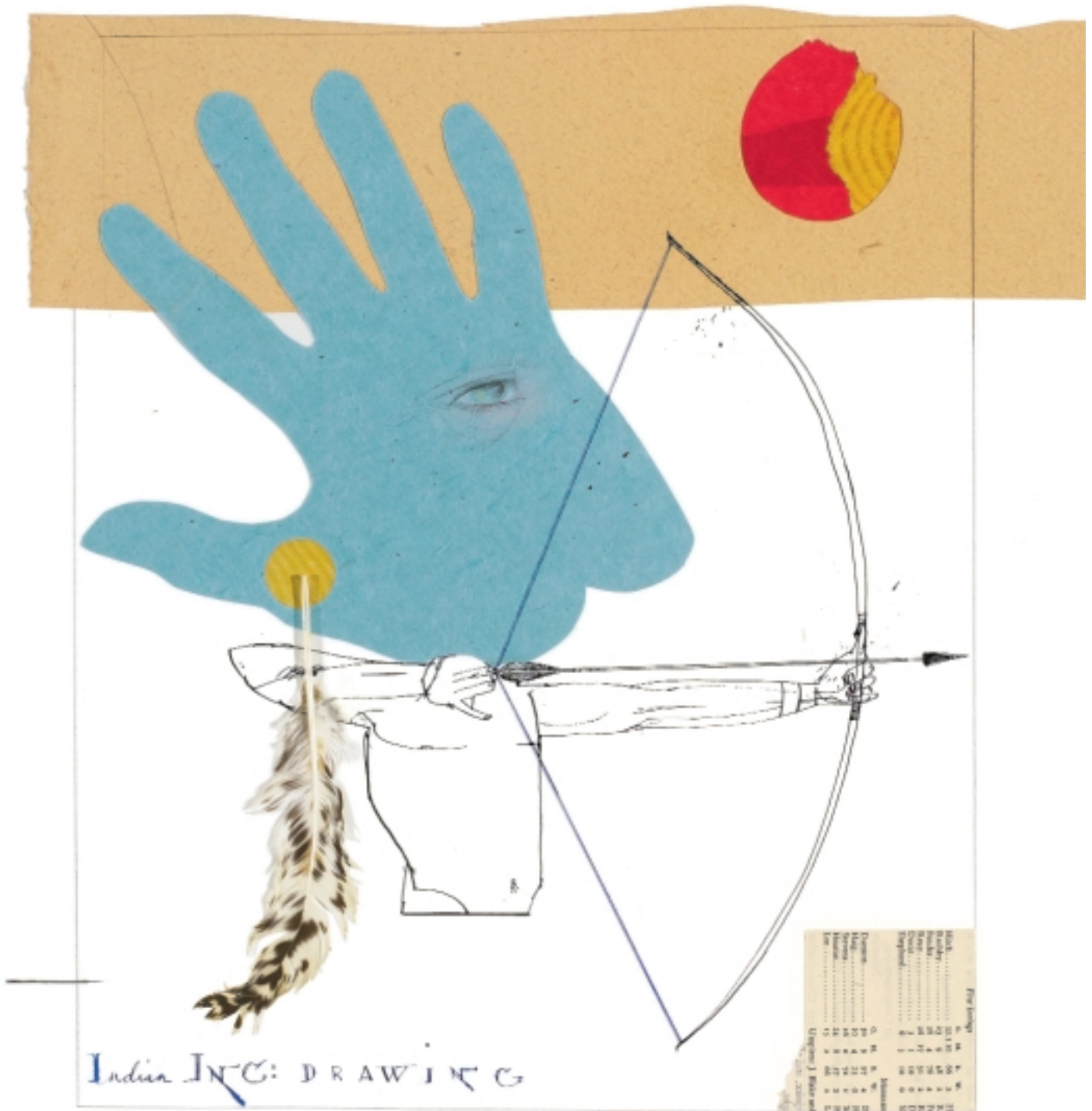
¹ An award of 115,319 units under the Performance Share Plan was made to Sir Martin Sorrell during 2002. Each unit is analogous to an ordinary share of WPP Group plc. Details of this award are referred to on page 82.



Stanley W Morten

Chairman of the Compensation committee
on behalf of the Board of Directors of WPP Group plc
14 May 2003

Operating & financial review



Competitive performance

Despite very difficult trading conditions throughout the world, our 2002 results reflect the achievement of balancing market pressure on revenues against reducing costs.

Public relations and public affairs continued to be most affected by the recession. Branding & identity, Healthcare and Specialist communications was somewhat affected, with healthcare and direct, a part of specialist communications, being more resilient. Advertising and Media investment management has been less affected than anticipated and Information, insight & consultancy has continued to see some limited growth, although it has been increasingly affected by the recession.

Despite these circumstances, there is no reason to believe that the Group cannot achieve the revised objective set in 2002 of improving margins by up to another one margin point in 2003 with the potential for a further half of one margin point improvement in 2004.

Your Board does not believe that there is any functional, geographic, account concentration or structural reasons that should prevent the Group achieving operating margins of up to 13.8% by 2004. After all, the best listed performer in the industry is or has been at 15-16% 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.

Our ultimate objective continues to be to achieve 20% margins over a period of time and improving the return on capital employed.

Revenue² per head \$000

WPP	02'	116.7
	01'	115.7
O&M/JWT/Y&R/MindShare/ Mediaedge:cia	02'	107.2
	01'	106.9
Omnicom ¹	02	131.5
	01	121.9
IPG ¹	02	118.3
	01	132.8

¹ Constant currency. See definition on page 134

PBIT³ margins %

WPP	02	12.3
	01	14.0
O&M/JWT/Y&R/MindShare/ Mediaedge:cia	02'	15.1
	01'	16.4
Omnicom ¹	02	15.2
	01	15.9
IPG ^{1,4}	02	8.9
	01	13.0

¹ Constant currency. See definition on page 134

Notes

¹ The figures above for Omnicom and IPG (The Interpublic Group) have been derived from their respective 10-K filings with the SEC in respect of the year ended 31 December 2002. As both these companies report under US GAAP, the above figures should be read as indicative of their financial performance as they are not directly comparable with WPP's UK GAAP reporting.

² Revenue per head has been calculated as reported revenue divided by the average number of employees in the relevant year. For Omnicom and IPG, who do not report average headcount in their 10-K filings, it has been estimated as the average of opening and closing headcount for the year.

³ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.

⁴ Interpublic PBIT margin for 2001 as presented above excludes restructuring and merger-related costs of \$645.6m.

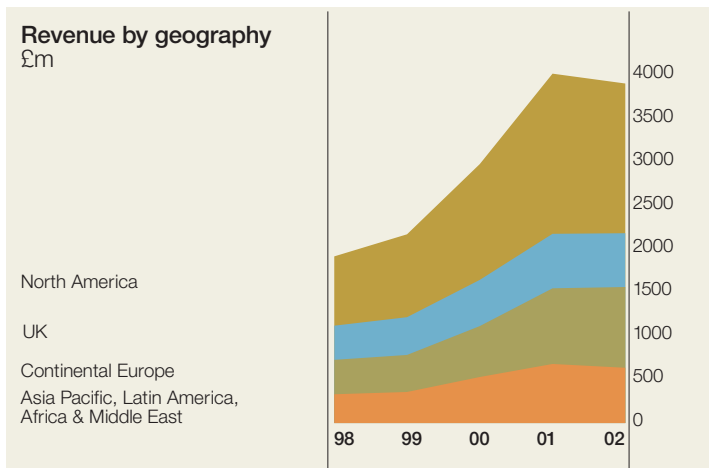
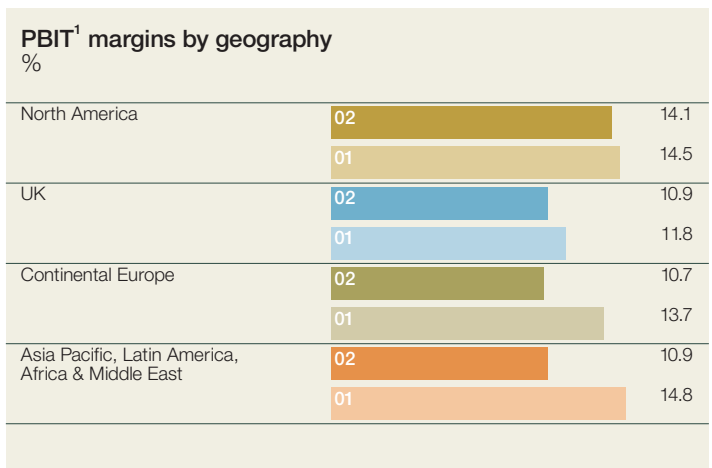
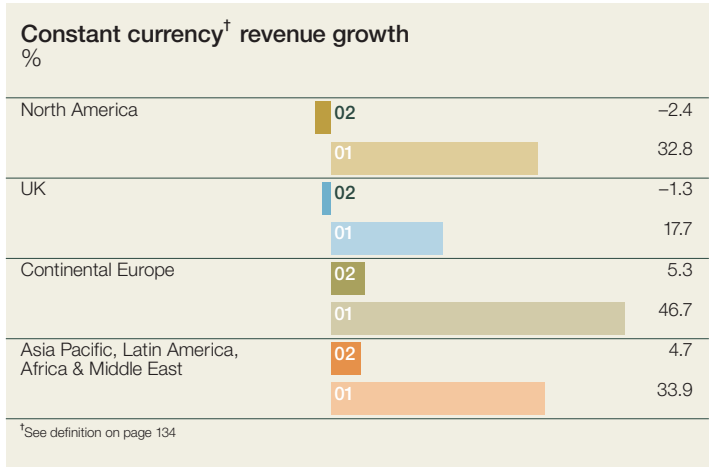
Geographic performance

The worldwide advertising and marketing services industries shrank by approximately 5% in 2001 as a result of the worldwide recession which started in the fourth quarter of 2000, and was further impacted by September 11.

This sharp downturn affected the US most significantly, but also impacted Europe, Asia Pacific and Latin America.

In 2002 North America and the UK have been most affected by the recession, with Continental Europe and Asia Pacific, Latin America, Africa and the Middle East least affected.

In the fourth quarter of 2002, North America exhibited revenue growth for the first time in almost two years.



Notes
¹ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.

Sector performance

Advertising and Media investment management

In constant currencies, this sector's revenue grew by 2.5% last year. The combined operating margin (including income from associates) of this group of companies (Ogilvy & Mather Worldwide, J. Walter Thompson Company, Y&R Advertising, Red Cell, MindShare and Mediaedge:cia) was over 15%.

In 2002, Ogilvy & Mather Worldwide generated estimated net new billings of £147 million (\$221 million), J. Walter Thompson Company £534 million (\$802 million), Y&R Advertising £212 million (\$319 million). Red Cell, which has been strengthened significantly by the addition of new talent, the acquisition of Berlin Cameron and Partners in the US and the increase in the shareholding in the Batey Group in Asia Pacific, generated estimated net wins of £52 million (\$78 million) excluding the recent assignment of Coca-Cola Classic in the US.

Also in 2002, MindShare and Mediaedge:cia generated estimated net new billings of £1,007 million (\$1,512 million). Plans to form a worldwide 'WPP Media' parent company are currently being implemented.

Information, insight & consultancy

Although the recession has increasingly impacted the Group's Information, insight & consultancy businesses, on a constant currency basis revenues grew 4% in 2002, partly driven by acquisition. Like-for-like revenues were still down less than 1%. Despite this overall top line performance, revenues, operating profit and operating margins came under pressure, particularly at Center Partners and Research International.

However, strong performances were recorded by Millward Brown at Greenfield Consulting in the US and the UK; IMS in Ireland; MFR and Millward Brown in France, Spain, China and Brazil; and by Research International in Australia, Japan, Singapore, Taiwan, Thailand and South Africa.

Public relations & public affairs

In constant currencies, the Group's public relations and public affairs revenue continued to be most affected by the recession, particularly in technology, media and telecommunications, declining by 8%. Burson-Marsteller, Ogilvy Public Relations Worldwide, Robinson Lerer & Montgomery in the US, and Finsbury and Buchanan in the UK performed well.

Following the like-for-like decline in revenues in 2001, and 2002, the public relations and public affairs businesses reduced their costs significantly and as a result operating margins before associates improved by over one margin point in 2002.

(continued overleaf)

Constant currency[†] revenue growth %

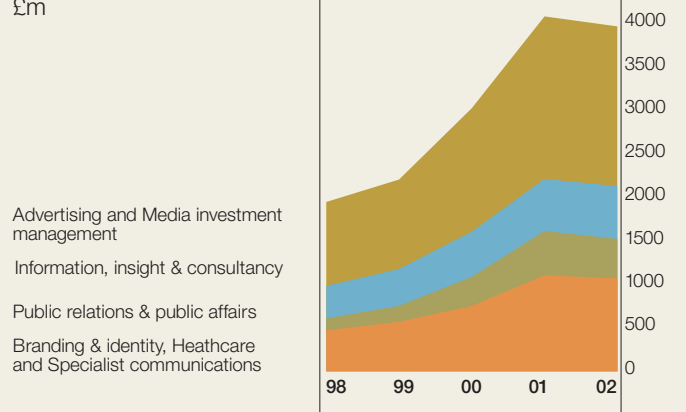
Sector	02	01
Advertising and Media investment management	2.5	30.8
Information, insight & consultancy	4.0	14.4
Public relations & public affairs	-8.0	49.3
Branding & identity, Healthcare and Specialist communications	-0.2	43.1

[†]See definition on page 134

PBIT¹ margins by sector %

Sector	02	01
Advertising and Media investment management	15.2	17.3
Information, insight & consultancy	7.1	9.8
Public relations & public affairs	10.4	9.6
Branding & identity, Healthcare and Specialist communications	11.1	12.5

Revenue by sector £m



Notes

¹PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28 of the financial statements.

Branding & identity, Healthcare and Specialist communications

In constant currencies the Group's Branding & identity, Healthcare and Specialist communications revenues were flat compared with 2001.

Several of our companies in this sector performed particularly well:

- In promotion and direct marketing – Wunderman in New York, Chicago and San Francisco in the US, Canada, UK, France, Germany, Italy, The Netherlands, Spain and Chile; OgilvyOne in Belgium, France, Germany, Spain, India, Japan, Singapore, Thailand and Mexico;
- In Branding & identity – Landor Associates in New York and Cincinnati in the US; Walker Group and MJM Creative Services in the US; Lambie-Nairn in the UK and icon brand navigation in Germany;
- In Healthcare – CommonHealth in the US, Sudler & Hennessey in the US, MarketForce Communications in Canada, Italy and Melbourne, Australia;
- Other specialist marketing resources – The Geppetto Group, Management Ventures, Savatar and VML in the US and The Forward Group, Glendinning and EWA in the UK.

Manufacturing

Gross profit was down significantly with operating profit and margins similarly impacted at the Group's manufacturing division.

Review of operations

As a result of the worldwide recession, which started in the US in the fourth quarter of 2000 and the impact of the tragedy of September 11, the worldwide advertising industry shrank by approximately 5% in 2001, with marketing services also down a similar amount.

The recession continued into 2002, when advertising and marketing services expenditure was probably down again in the low single digits and the downturn has now continued for over two years. The tragic events of September 11 had a material negative impact on the second half of 2001 and many people (ourselves included) felt that the second half of 2002 might see a relative improvement, particularly given easier comparative figures. However, further stock market nervousness in the third quarter of 2002 raised additional concerns about corporate profitability, consumer confidence and a possible economic 'double-dip', producing a 'dead-cat' bounce.

While the Group has seen a reduction in the rate of decline in each quarter of 2002, with the US exhibiting revenue growth in the fourth quarter of 2002 for the first time in almost two years, uncertainty remains. As a result, 2003 is likely to be another difficult year, with hopes for a more significant recovery being pinned on 2004 and the positive impact of quadrennial factors such as the US Presidential election, political advertising in the US pushing up media rates, the Athens Olympics and the European football championships.

Network television price inflation and declining audiences, fragmentation of traditional media and rapid development of new technologies continued to drive experimentation by our clients in new media and non-traditional alternatives. 1998 was really the first year when WPP's marketing services activities represented over 50% of Group revenue. In 2002 these activities represented over 53% of Group revenue, a little less than 2001, as Advertising and Media investment management revenues were more robust than anticipated. In addition, in 2002, our narrowly defined internet-related revenue was over \$300 million or over 2% of our worldwide reported revenue. This compares with approximately 5% for online media's share of total advertising spend in the US and approximately 3% share worldwide. The new media continue to build their share of client spending.

Group financial performance

Reportable revenue was down almost 3% to £3.908 billion. Revenues including associates are estimated to total £4.644 billion.

Profit pre-goodwill amortisation and impairment, interest, tax, fixed asset gains and write-downs was

down 14.4% to £480.2 million from £561.1 million and down almost 12% in constant currencies.

Net interest payable and similar charges (including a charge for the early adoption of FRS 17) increased to £86.4 million from £71.3 million, reflecting lower cash generated from operations, the full-year impact of the increased level of acquisition activity in 2001 and share repurchases and cancellations in the current year. Headline interest cover remains at the relatively conservative level of almost six times and at six times, excluding the FRS 17 charge.

Profit before interest, tax, fixed asset gains and write-downs fell by over 44% to £302.5 million from £546.3 million.

The Group's tax rate on headline profits was 26%, down from 27% in the previous year, reflecting the impact of further improvements in tax planning.

Diluted headline earnings per share were down over 19% at 24.9p. In constant currency, earnings per share on the same basis were down under 16%.

All severance and restructuring costs have been included in operating profits. Following the collapse in technology equity valuations in 2001, it was considered prudent to write down the net balance sheet value of the Group's investments in this area by £70.8 million. 2002 has seen further declines in these technology investments, many of which are in private companies. An additional write-down of £19.9 million has been taken in 2002, mitigated by gains on asset disposals of £9.2 million. The carrying value of these investments is now written down to £19.3 million.

In addition, a further £145.7 million was taken as an impairment charge primarily reflecting accelerated amortisation of goodwill on first generation businesses which have suffered in the recession. This additional charge represents 3.2% of the goodwill shown in the balance sheet at the start of 2002.

As a result, profit before tax fell 50% to £205.4 million and diluted earnings per share by almost 68% to 7.7p.

The Board recommends an increase of 20% in the final dividend to 3.67p per share, making a total of 5.40p per share for 2002, a 20% increase over 2001. The record date for this dividend is 6 June 2003, payable on 7 July 2003. The dividend for 2002 is four and a half times covered by headline earnings.

Operating margins

Pre-goodwill amortisation and impairment, reported operating margins (including income from associates) fell to 12.3% from 14.0%. Excluding income from associates, reported operating margins fell less, by 1.4% from 12.9% to 11.5%. Post-goodwill amortisation and impairment, reported profit before interest, tax,

investment gains and write-downs was down 44% to £302.5 million from £546.3 million. Before incentive payments totalling £90.1 million or over 16% (under 14% in 2001) of operating profit before bonuses, taxes and income from associates, operating margins fell to 13.8% from 14.9%, reflecting stronger performance of some operating units against last year and increased provision for the LEAP senior management incentive program, due to stronger than anticipated WPP total shareholder return against the peer group. Reported operating costs including direct costs fell by almost 1%, but rose by almost 3% in constant currency.

On a reported basis the Group's staff cost to gross margin ratio, excluding severance and incentives, increased slightly to 56.9% from 56.6%.

Variable staff costs as a proportion of total staff costs have increased over recent years, reaching 12.1% in 2000. The impact of the recession in both 2001 and 2002 has reduced this ratio to 9.2% and variable staff costs as a proportion of revenue to 5.3%. This highlights the benefits of the increased flexibility in the cost structure.

With the recession, the task of eliminating under-utilised property costs continue to be a priority. At the beginning of 2002 the Group occupied approximately 14 million square feet worldwide. By the end of the year, occupancy had fallen to 13.5 million square feet or a 4% reduction. In addition, a further 1.1 million square feet or an additional 8% will be jettisoned by the end of 2003.

Like-for-like performance

On a constant currency basis, revenue was up 0.7% and gross profit up 0.9%. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were down 5.9%. Over the four quarters of 2002, like-for-like revenues have fallen by decreasing amounts – more than –9% in quarter one, –8% in quarter two, more than –3% in quarter three and less than –3% in quarter four. In quarter four, North America showed revenue growth for the first time for seven quarters of almost 2%.

Like-for-like total operating and direct costs were down 4.6% on the previous year. Staff costs excluding incentives were flat, as were total salaries. Non-staff costs rose as a proportion of revenues, primarily reflecting the 'lumpiness' of property costs as capacity is reduced.

On a constant currency basis, pre-tax profits were down almost 43% reflecting the strengthening of sterling against the dollar, counterbalanced to some extent by its weakness against the euro. If sterling had stayed at the same average levels as 2001, profits on this basis would have been £315.2 million.

Headcount

Actual people numbers averaged 50,417 against 50,487 in 2001, down marginally. On a like-for-like basis, average headcount was down to 50,417 from 55,109, a decrease of over 8%. At the end of 2002 staff numbers were 49,439 compared with 52,670 at the end of 2001 on a pro-forma basis, a reduction of over 6%. Headcount numbers have been falling by approximately half of 1% per month.

Acquisitions and start-ups

In 2002 the Group increased its equity interests, at a combined initial cost of £105 million in cash, in Advertising and Media investment management in the UK, France, Germany, Spain, The Netherlands, Switzerland, Sweden, Finland, the Czech Republic, Slovakia, Australia, New Zealand, China, India, Taiwan, Brazil and the Middle East; in Information, insight & consultancy in the US, Ireland, France, Poland and Thailand; in Public relations & public affairs in the US, Norway, China, Australia, Japan and Taiwan; in direct and promotion in the US; and in sports marketing in Germany.

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.

Executive options

WPP intends to expense the cost of executive options in its income statement. Under UK GAAP, there is no definitive guidance on how this is to be implemented. However, page 132 details the impact of expensing executive options using a Black-Scholes valuation model and applying US transitional guidelines contained in FAS 148. On this basis, only executive options issued in 2002 would be expensed in that year. As options granted are weighted towards the second half of the year, the resulting reduction in headline earnings per share would have been only 0.4p. Fully expensing all executive options granted over the last three years on a consistent basis would reduce headline earnings per share by approximately 7%.

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.

Its principal borrowing currencies are US dollars, pounds sterling and euro. Borrowings in these currencies, including amounts drawn under the working capital facility, represented 97% of the Group's gross indebtedness at 31 December 2002 (at \$1,248 million, £155 million and €1,005 million) and 98% of the Group's average gross debt during the course of 2002 (at \$1,407 million, £171 million and €1,043 million). 62% of the year-end dollar debt is at fixed rates averaging 5.23% for an average period of 26 months. 100% of the GBP debt is at a fixed rate of 3% (including the effect of the redemption premium on the £450 million 2% convertible bonds) for an average period of 52 months. 55% of the euro debt is at fixed rates averaging 5.45% for an average period of 36 months.

In April 2002 the Group issued £450 million of convertible bonds carrying a coupon of 2%. The bonds are convertible into 41.9 million WPP ordinary shares. Proceeds from the issue were used to repay drawings under the £360 million bank facility arranged to acquire Tempus Group plc in 2001 and for general corporate purposes. The bonds are redeemable in April 2007 at a premium of 5.35% over par which, together with the 2% annual coupon, has the effect of providing bondholders with an all-in return of 3% over the five-year life of the bonds. The additional 1% per annum associated with the redemption premium is accrued and charged as interest in the profit and loss account. £295 million of the £440 million of proceeds net of expenses were converted into US dollars, Euro and Japanese Yen through cross-currency swap agreements with the Group's bankers. These cross-currency swaps are shown in the tables in note 5 on page 112.

Other than fixed rate debt, the Group's other fixed rates are achieved principally 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 2002, no forward

rate agreements or interest rate caps were outstanding.

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 9 on page 113.

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.

The Group's significant international 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 and euros, as these are the predominant currencies of revenues.

The Group's operations conduct the majority of their activities in their own local currency and consequently the Group has no significant transactional foreign exchange exposures. Any 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 2002. No speculative foreign exchange trading is undertaken.

Cash flow

As at 31 December 2002, the Group's net debt fell to £723 million compared with £885 million at 31 December 2001 (2001: £893 million on the basis of 2002 year-end exchange rates), following net cash expenditure of £281 million on acquisitions (including £94 million of loan note redemptions) and £76 million on share repurchases and cancellations.

Net debt averaged £1,343 million in 2002, up £509 million against £834 million in 2001 (up £521 million at 2002 exchange rates), primarily reflecting the full-year impact of acquisitions made in 2001. These net debt figures compare with a current equity market capitalisation of approximately £5.3 billion, giving a total enterprise value of approximately £6.6 billion.

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2002, operating profit before goodwill amortisation and impairment was £450 million, capital expenditure

2002 cash flow £m

46 Other	Free cash flow ¹ £349m
117 Depreciation	
177 Goodwill amortisation and impairment	
273 Operating profit	78 Net interest
	101 Capital expenditure
	85 Tax
Cash in	Cash out

2001 cash flow £m

115 Other	Free cash flow £494m
110 Depreciation	
506 Operating profit	
	15 Goodwill amortisation and impairment
	56 Net interest
	118 Capital expenditure
	78 Tax
Cash in	Cash out

2000 cash flow £m

93 Other	Free cash flow £292m
64 Depreciation	
379 Operating profit	
	15 Goodwill amortisation and impairment
	66 Net interest
	112 Capital expenditure
	81 Tax
Cash in	Cash out

¹ Notes
See definition on page 134.

Review of operations (continued)

£101 million, depreciation £117 million, tax paid £85 million, interest and similar charges paid £78 million and other net cash inflows of £46 million. Free cash flow available for debt repayment, acquisitions, share buy-backs and dividends was therefore £349 million. This free cash flow was absorbed by acquisition payments and investments of £281 million, share repurchases and cancellations of £76 million and dividends of £56 million. The Company almost fulfilled its recently set objective of covering acquisition payments and share repurchases and cancellations from free cash flow.

Your Board continues to examine ways of deploying its substantial cash flow of over £400 million per annum to enhance share owner value. As necessary capital expenditure is expected to remain equal to or less than the depreciation charge, the Company has concentrated on examining acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

As noted above, your Board has decided to increase the final dividend by 20% to 3.67p per share, taking the full-year dividend to 5.40p per share which is four and a half times covered, at the headline earnings level. In addition, as current opportunities for cash acquisitions may be limited particularly in the US, the Company will continue to commit to repurchasing up to 2% of its share base in the open market, when market conditions are appropriate. Such annual rolling share repurchases are perceived to have a more significant impact in improving share owner value than sporadic buy-backs.

Pensions funding

In light of recent stock market declines and consequent poor equity investment returns, the Company has reduced its forecasted weighted average return on US pension assets from 9.1% to 7.2% and on UK pension assets from 5.8% to 5.4%. Our advisors indicate that further average cash contributions of approximately £12-£13 million per annum would be necessary to fully fund all funded pension schemes over their remaining lives, unless stock markets recover.

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 2002 this resulted in an increase of £82 million (2001: decrease of £81 million) in the sterling value of share owners' funds due to movements in exchange rates. In 2002, net assets of £3,714 million compared with £3,641 million in 2001.

2003 prospects

Given the current state of the world economy, your Group has performed reasonably well. In essence, operating costs, including severance and restructuring costs, have been reduced following the significant fall

in like-for-like revenues. As the Group forecasted the general decline in economic conditions relatively early, the consequent focus on matching staff costs to revenues has resulted in a fall in average headcount by over 8% and point-to-point headcount by over 6%. This has been achieved, in part, by a slow-down in recruitment and the impact of the normal attrition rate.

As usual, and given conditions in 2002, our budgets for 2003 have been prepared on a conservative basis, largely excluding new business particularly in Advertising and Media investment management. They predict broadly flat like-for-like revenues in comparison with 2002 and a stronger second half of the year relative to the first.

They also indicate Advertising and Media investment management revenues up by 1%, counterbalanced by flat marketing services revenues. This compares with budgeted growth of 10% and achieving 15% in 2000, budgeted growth of 7% and a decline of 3% in 2001 and flat budgeted revenues and a decline of 6% in 2002.

In the first quarter of 2003, constant currency revenues were up over 1% and on a like-for-like basis, excluding acquisitions and currency fluctuations, were flat.

Estimated net new business billings of £410 million (£660 million) were won during the first quarter of 2003.

Net debt at 31 March 2003 was £1,335 million, compared with £1,505 million at 31 March 2002. Average net debt in the first quarter of 2003 was £1,252 million compared to £1,227 million in 2002, at 2003 exchange rates. In the 12 months to 31 March 2003, the Group's free cash flow was £442 million. Over the same period, the Group's expenditure on capital, acquisitions, share re-purchases and cancellations was £489 million.

Worldwide economic conditions are likely to remain difficult in 2003 particularly given the uncertainty created by the war in Iraq and the Sars epidemic. Should conditions improve, the Group is well positioned to respond to any recovery, given its geographical and functional spread and strengths, its flexible cost structure and strong cash flow. Incentive plans for 2003 will again focus more on operating profit growth than historically to stimulate top-line growth, although objectives will continue to include operating margin improvement, improvement in staff costs to revenue ratios and qualitative Group objectives, including co-ordination, talent management and succession planning.

In the short term, growth in advertising and marketing services expenditure will likely remain fairly flat or low, particularly given procurement pressures and the dampening effect of the increasing proportion of fee remuneration on the impact of cyclical upturns (and downturns). However, there are now significant opportunities in the area of outsourcing clients'

marketing activities, consolidating client budgets and capitalising on competitors' weaknesses. In addition, spending amongst the package goods, pharmaceutical, oil and energy, government (the government is the largest advertiser in the UK market) and price-value retail sectors has remained relatively resilient. These sectors represent approximately 27% of the Group's revenue.

In the long term, however, the outlook is very favourable. Over-capacity of production in most sectors and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications, the continued dominance of the US economy and the need to influence distribution, underpin the need for our clients to continue to differentiate their products and services both tangibly and intangibly. Advertising and marketing services expenditure as a proportion of gross national product should resume its growth and once more bust through the cyclical high established in 2000.

Given these short- and long-term trends, your Company has three strategic priorities. In the short term, to weather the recession; in the medium term to continue to integrate successfully the mergers with Y&R and Tempus; and finally, in the long term, to continue to develop its businesses in the faster-growing geographical areas of Asia Pacific, Latin America, Central and Eastern Europe, Africa and the Middle East and in the faster-growing functional areas of marketing services, particularly direct, interactive and market research.

2002 was a very difficult year. 2003 will also be difficult but hopefully a little easier. Early indications are that worldwide advertising and marketing services expenditure will be up slightly. 2004 may well be better.

Our people have responded magnificently in 2002 to the difficult economic and political challenges that they have faced. They have delivered results which, even including all exceptional items, have out-performed most of their competition and grown market share.

We believe that despite the challenges that we face, 2003, WPP's eighteenth year, should be a good one. ■

Paul Richardson
Group finance director



Paul Richardson
Group finance director

In connection with the provisions of the Private Securities Litigation Reform Act of 1995 (the 'Reform Act'), the Company may include forward-looking statements (as defined in the Reform Act) in oral or written public statements issued by or on behalf of the Company. These forward-looking statements may include, among other things, plans, objectives, projections, anticipated future economic performance as assumptions and the like that are subject to risks and uncertainties. As such, actual results or outcomes may differ materially from those discussed in the forward-looking statements. Important factors which may cause actual results to differ include but are not limited to: the unanticipated loss of a material client or key personnel, delays or reductions in client advertising budgets, shifts in industry rates

of compensation, government compliance costs or litigation, unanticipated natural disasters, the Company's exposure to changes in the values of other major currencies (because a substantial portion of its revenues are derived and costs incurred outside of the UK) and the overall level of economic activity in the Company's major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In light of these and other uncertainties, the forward-looking statements included in this document should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved.

Our 2002 financial statements





ALL PRICES ON THIS PAGE, A

Item	Each	Total
4th Royal	53	53
4th Imperial	53	53
4th Imperial, full size	18	18
Half Royal	17	17
Imperial	14	14
Half Imperial	10	10
Half Imperial, full size	23	23
Medium	20	20
Royal	22	22
Half Double Elephant	24	24
Imperial, full size	28	28
Double Elephant	28	28

Accounting policies

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

Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

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.

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.

For certain acquisitions, where the directors consider it 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 indefinite 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 indefinite life of these intangible assets, it is not possible to quantify its impact. However, for illustrative purposes only, if the Group were to change its accounting policy and regard all intangible assets as having a limited useful economic life, and the useful economic life it chose was 20 years, then the resulting impact on the profit and loss account in 2002 would have been a charge of £231.0 million (2001: £182.0 million, 2000: £27.0 million).

Future anticipated payments to vendors in respect of earnouts are based on the directors' best estimates of future obligations, which are dependent on the future performance of the interests acquired and assume the operating companies improve profits in line with directors' estimates. When earnouts are to be settled by cash consideration, the fair value of the consideration is obtained by discounting to present value the amounts expected to be payable in the future.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment 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 or life of the asset, if shorter

Fixtures, fittings and equipment – 10-33% per annum

Computer equipment – 33% per annum

Investments

Except as stated below, fixed asset investments are shown at cost less impairment.

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 consolidated 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.

Current asset investments are stated at the lower of cost and net realisable value.

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.

Debtors

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

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

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. Direct costs include fees paid to external suppliers where they are retained to perform part or all of a specific project for a client and the resulting expenditure is directly attributable to the revenue earned. 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. Revenue may therefore consist of various arrangements involving commissions, fees, incentive-based revenue 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 revenue 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.

Information, insight & 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.

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.

Current taxation

Corporate taxes are payable on taxable profits at current rates.

Deferred taxation

Deferred taxation 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 taxation in the future or a right to pay less taxation 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 taxation

assessments in periods different from those in which they are recognised in the financial statements. A net deferred taxation 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.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on a non-discounted basis.

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 provision made.

Pension costs

The Group accounts for pension schemes in accordance with FRS 17 (Retirement Benefits).

For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension

scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases') the assets are treated as if they have been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the profit and loss account on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account as it is incurred.

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.

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 assets of these companies are translated at year-end exchange rates. Exchange differences arising from retranslation of the opening net assets, and on foreign currency borrowings to the extent that they hedge the Groups' investment in such operations, and results for the year are reported in the Statement of Total Recognised Gains and Losses. ■

Consolidated profit and loss account

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m	2002 \$m*	2001 \$m*	2000 \$m*
Turnover (gross billings)	1	18,028.7	20,886.9	13,949.4	27,108.0	30,079.2	21,150.1
Cost of sales		(14,120.4)	(16,865.2)	(10,968.7)	(21,231.4)	(24,287.5)	(16,630.8)
Revenue	1	3,908.3	4,021.7	2,980.7	5,876.6	5,791.7	4,519.3
Direct costs		(218.2)	(232.0)	(244.6)	(328.1)	(334.2)	(370.8)
Gross profit		3,690.1	3,789.7	2,736.1	5,548.5	5,457.5	4,148.5
Operating costs excluding goodwill amortisation and impairment	2	(3,239.9)	(3,269.4)	(2,341.6)	(4,871.5)	(4,708.3)	(3,550.3)
Goodwill amortisation and impairment	2	(177.7)	(14.8)	(15.1)	(267.2)	(21.3)	(22.9)
Operating profit		272.5	505.5	379.4	409.8	727.9	575.3
Income from associates	15	30.0	40.8	38.0	45.1	58.8	57.6
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs		302.5	546.3	417.4	454.9	786.7	632.9
Profits on disposal of fixed assets	4	9.2	6.8	–	13.8	9.8	–
Amounts written off fixed asset investments	4	(19.9)	(70.8)	–	(29.9)	(102.0)	–
Net interest payable and similar charges on net borrowings		(79.6)	(67.5)	(50.3)	(119.7)	(97.2)	(76.3)
Net interest charges on defined benefit pension schemes		(6.8)	(3.8)	(1.4)	(10.2)	(5.5)	(2.1)
Net interest payable and similar charges	5	(86.4)	(71.3)	(51.7)	(129.9)	(102.7)	(78.4)
Profit on ordinary activities before taxation		205.4	411.0	365.7	308.9	591.8	554.5
Taxation on profit on ordinary activities	6	(103.4)	(126.1)	(109.7)	(155.5)	(181.6)	(166.3)
Profit on ordinary activities after taxation		102.0	284.9	256.0	153.4	410.2	388.2
Minority interests		(14.0)	(13.7)	(11.3)	(21.1)	(19.7)	(17.1)
Profit attributable to ordinary share owners		88.0	271.2	244.7	132.3	390.5	371.1
Ordinary dividends	7	(62.5)	(51.6)	(37.8)	(94.0)	(74.3)	(57.3)
Retained profit for the year transferred to reserves	25	25.5	219.6	206.9	38.3	316.2	313.8
PBIT¹	1	480.2	561.1	432.5	722.1	808.0	655.8
PBIT¹ margin		12.3%	14.0%	14.5%	12.3%	14.0%	14.5%
PBT¹		400.6	493.6	382.2	602.4	710.8	579.5
Headline earnings per share²	8						
Basic earnings per ordinary share		25.5p	32.1p	31.3p	38.3c	46.2c	47.5c
Diluted earnings per ordinary share		24.9p	30.9p	30.3p	37.4c	44.5c	45.9c
Standard earnings per share	8						
Basic earnings per ordinary share		7.9p	24.6p	29.3p	11.9c	35.4c	44.4c
Diluted earnings per ordinary share		7.7p	23.7p	28.4p	11.6c	34.1c	43.1c
Headline earnings per ADR²							
Basic earnings per ADR		127.5p	160.5p	156.5p	\$1.92	\$2.31	\$2.37
Diluted earnings per ADR		124.5p	154.5p	151.5p	\$1.87	\$2.22	\$2.30
Standard earnings per ADR							
Basic earnings per ADR		39.5p	123.0p	146.5p	\$0.59	\$1.77	\$2.22
Diluted earnings per ADR		38.5p	118.5p	142.0p	\$0.58	\$1.71	\$2.15

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. For illustrative purposes only, the financial statements set out on this page and page 109 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (2002: \$1.5036 = £1, 2001: \$1.4401 = £1, 2000: \$1.5162 = £1) and the rate in effect on 31 December for the balance sheet (2002: \$1.6100 = £1, 2001: \$1.4542 = £1, 2000: \$1.4937 = £1). This translation is unaudited and 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. The consolidated euro profit and loss account and balance sheet have been set out on pages 130 and 131 for illustrative purposes only.

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 25.

No operations with a material impact on the Group's results were acquired or discontinued during 2002 or 2001. For 2000, aggregated figures for acquisitions were revenue of £438.9 million, operating profit of £61.5 million and PBIT of £66.4 million.

Notes

¹ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.

² The calculation of PBIT and PBT is set out in note 28.

² Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

Consolidated cash flow statement

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m
Operating profit		272.5	505.5	379.4
Depreciation		116.6	109.9	63.8
Goodwill amortisation and impairment charges		177.7	14.8	15.1
Movements in working capital and provisions	10	210.5	(458.0)	164.8
Loss on sale of tangible fixed assets		2.6	1.7	1.3
Net cash inflow from operating activities		779.9	173.9	624.4
Dividends received from associates		9.4	14.7	7.6
Returns on investments and servicing of finance	11	(78.2)	(56.4)	(66.0)
UK and overseas tax paid		(85.0)	(77.5)	(81.4)
Capital expenditure and financial investment	11	(157.9)	(217.2)	(199.1)
Acquisitions and disposals	11	(277.3)	(730.3)	(281.0)
Equity dividends paid		(55.6)	(44.4)	(25.6)
Net cash inflow/(outflow) before management of liquid resources and financing		135.3	(937.2)	(21.1)
Management of liquid resources	9	(113.6)	(76.8)	–
Net cash inflow from financing	11	213.9	499.0	204.6
Increase/(decrease) in cash and overdrafts for the year		235.6	(515.0)	183.5
Translation difference		(0.4)	10.7	35.1
Balance of cash and overdrafts at beginning of year		265.7	770.0	551.4
Balance of cash and overdrafts at end of year		500.9	265.7	770.0

Reconciliation of net cash flow to movement in net debt:

Increase/(decrease) in cash and overdrafts for the year		235.6	(515.0)	183.5
Cash outflow from increase in liquid resources	9	113.6	76.8	–
Cash inflow from increase in debt financing		(201.2)	(430.0)	(126.6)
Debt acquired		–	–	(194.9)
Other movements		(8.8)	(1.1)	(1.9)
Translation difference		23.2	8.8	23.4
Movement in net debt in the year		162.4	(860.5)	(116.5)
Net (debt)/funds at beginning of year	9	(885.1)	(24.6)	91.9
Net debt at end of year	9	(722.7)	(885.1)	(24.6)

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 2002

	Notes	2002 £m	2001 £m	2000 £m
Profit for the financial year		88.0	271.2	244.7
Exchange adjustments on foreign currency net investments	25	82.3	(80.6)	(133.0)
Actuarial loss on defined benefit pension schemes in accordance with FRS 17 (Retirement Benefits)	25	(52.8)	(43.0)	(27.0)
Total recognised gains and losses relating to the year		117.5	147.6	84.7

The accompanying notes form an integral part of this statement of total recognised gains and losses.

Consolidated balance sheet

As at 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m	2002 \$m	2001 \$m	2000 \$m
Fixed assets							
Intangible assets							
Corporate brands	13	950.0	950.0	950.0	1,529.5	1,381.5	1,419.0
Goodwill	13	4,407.0	4,439.9	3,497.3	7,095.3	6,456.5	5,223.9
Tangible assets							
Investments	15	628.7	553.5	551.5	1,012.2	804.9	823.8
		6,363.0	6,376.2	5,389.0	10,244.5	9,272.3	8,049.5
Current assets							
Stocks and work in progress	16	291.6	236.9	241.1	469.5	344.5	360.1
Debtors	17	2,256.4	2,391.8	2,181.0	3,632.8	3,478.2	3,257.8
Trade debtors within working capital facility:							
Gross debts	18	385.7	331.0	464.9	621.0	481.3	694.4
Non-returnable proceeds		(217.4)	(82.5)	(231.6)	(350.0)	(119.9)	(345.9)
		168.3	248.5	233.3	271.0	361.4	348.5
Current asset investments (short-term bank and escrow deposits)							
	9	190.4	76.8	–	306.5	111.7	–
Cash at bank and in hand		689.1	585.6	1,067.6	1,109.5	851.6	1,594.7
		3,595.8	3,539.6	3,723.0	5,789.3	5,147.4	5,561.1
Creditors: amounts falling due within one year	19	(4,120.1)	(4,322.0)	(4,252.4)	(6,633.4)	(6,285.1)	(6,351.8)
Net current liabilities		(524.3)	(782.4)	(529.4)	(844.1)	(1,137.7)	(790.7)
Total assets less current liabilities		5,838.7	5,593.8	4,859.6	9,400.4	8,134.6	7,258.8
Creditors: amounts falling due after more than one year (including convertible bonds)							
	20	(1,837.5)	(1,711.5)	(1,279.6)	(2,958.4)	(2,488.9)	(1,911.3)
Provisions for liabilities and charges	21	(102.0)	(106.1)	(98.2)	(164.2)	(154.3)	(146.7)
Net assets excluding pension provision		3,899.2	3,776.2	3,481.8	6,277.8	5,491.4	5,200.8
Pension provision	22	(184.8)	(135.3)	(87.7)	(297.5)	(196.8)	(131.0)
Net assets including pension provision		3,714.4	3,640.9	3,394.1	5,980.3	5,294.6	5,069.8
Capital and reserves							
Called up share capital	24, 25	115.7	115.0	111.2	186.3	167.2	166.1
Share premium account	25	836.6	805.2	709.0	1,346.9	1,170.9	1,059.0
Shares to be issued	25	195.7	238.6	386.7	315.1	347.0	577.6
Merger reserve	25	2,869.3	2,824.7	2,630.2	4,619.6	4,107.7	3,928.7
Other reserves	25	(254.3)	(336.8)	(256.2)	(409.4)	(489.8)	(382.6)
Profit and loss account	25	(87.4)	(46.9)	(211.0)	(140.7)	(68.2)	(315.2)
Equity share owners' funds		3,675.6	3,599.8	3,369.9	5,917.8	5,234.8	5,033.6
Minority interests		38.8	41.1	24.2	62.5	59.8	36.2
Total capital employed		3,714.4	3,640.9	3,394.1	5,980.3	5,294.6	5,069.8

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

Signed on behalf of the Board on 14 May 2003:

Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated financial statements

For the year ended 31 December 2002

1 Segment information

The Group is a 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, insight & consultancy, Public relations & public affairs, and Branding & identity, Healthcare and Specialist communications. The Group derives a substantial proportion of its revenue and operating income from the US, the UK 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:

	2002 £m	Change %	2001 £m	Change %	2000 £m
Turnover					
UK	1,689.9	1.5	1,664.6	24.6	1,336.3
US	7,711.2	(28.0)	10,708.6	77.8	6,023.8
Continental Europe	5,525.8	24.3	4,445.0	32.9	3,344.3
Canada, Asia Pacific, Latin America, Africa & Middle East	3,101.8	(23.8)	4,068.7	25.4	3,245.0
	18,028.7	(13.7)	20,886.9	49.7	13,949.4
Revenue					
UK	619.2	(1.3)	627.3	17.8	532.4
US	1,655.0	(6.1)	1,763.1	38.4	1,273.6
Continental Europe	929.6	6.7	870.9	48.5	586.3
Canada, Asia Pacific, Latin America, Africa & Middle East	704.5	(7.4)	760.4	29.2	588.4
	3,908.3	(2.8)	4,021.7	34.9	2,980.7
PBIT¹					
UK	67.5	(8.7)	73.9	5.1	70.3
US	239.2	(7.1)	257.6	28.6	200.3
Continental Europe	99.7	(16.7)	119.7	45.8	82.1
Canada, Asia Pacific, Latin America, Africa & Middle East	73.8	(32.8)	109.9	37.7	79.8
	480.2	(14.4)	561.1	29.7	432.5

There is no material difference between turnover determined by origin and that determined by destination.

Contributions by operating sector were as follows:

	2002 £m	Change %	2001 £m	Change %	2000 £m
Turnover					
Advertising and Media investment management	14,878.4	(14.2)	17,347.8	51.4	11,455.6
Information, insight & consultancy	627.1	(17.2)	757.8	46.4	517.5
Public relations & public affairs	568.6	(7.9)	617.5	46.2	422.5
Branding & identity, Healthcare and Specialist communications	1,954.6	(9.7)	2,163.8	39.3	1,553.8
	18,028.7	(13.7)	20,886.9	49.7	13,949.4
Revenue					
Advertising and Media investment management	1,810.0	(1.7)	1,841.5	31.6	1,399.0
Information, insight & consultancy	598.6	1.4	590.3	15.3	512.1
Public relations & public affairs	447.6	(10.9)	502.1	52.1	330.1
Branding & identity, Healthcare and Specialist communications	1,052.1	(3.3)	1,087.8	47.1	739.5
	3,908.3	(2.8)	4,021.7	34.9	2,980.7
PBIT¹					
Advertising and Media investment management	274.7	(14.0)	319.4	37.2	232.8
Information, insight & consultancy	42.4	(26.4)	57.6	11.6	51.6
Public relations & public affairs	46.5	(3.7)	48.3	11.8	43.2
Branding & identity, Healthcare and Specialist communications	116.6	(14.1)	135.8	29.5	104.9
	480.2	(14.4)	561.1	29.7	432.5

Notes

¹ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28.

2 Operating costs

	2002 £m	2001 £m	2000 £m
Total staff costs (note 3)	2,230.0	2,268.9	1,616.2
Establishment costs	329.4	313.6	216.8
Other operating expenses (net)	677.9	685.2	507.3
Loss on sale of tangible fixed assets	2.6	1.7	1.3
Operating costs excluding goodwill amortisation and impairment	3,239.9	3,269.4	2,341.6
Goodwill amortisation and impairment	177.7	14.8	15.1
Total operating costs	3,417.6	3,284.2	2,356.7
Operating expenses include:			
Depreciation of tangible fixed assets	116.6	109.9	63.8
Goodwill amortisation	32.0	14.8	6.6
Goodwill impairment	145.7	-	8.5
Operating lease rentals:			
Land and buildings (excluding real estate taxation)	207.4	186.7	125.2
Plant and machinery	45.7	44.2	31.6
	253.1	230.9	156.8

All of the operating costs of the Group are related to administrative expenses.

The impairment charge relates to a number of under-performing businesses in the Information, insight & consultancy, and Branding & identity, Healthcare and Specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill. £120.6 million (more than 80%) of the impairment charge relates to goodwill that was previously being amortised. Note 13 gives further information on the Group's 2002 impairment review.

	2002 £m	2002 ¹ £m	2001 ¹ £m	2000 ¹ £m
	Current auditors	Previous auditors		
Auditors' remuneration:				
Services as auditors	5.4	-	5.1	3.7
Further assurance services ²	0.3	1.9	6.3	3.7
	5.7	1.9	11.4	7.4
Non-audit services:				
Tax advisory	1.6	1.1	3.7	2.3
Consulting	0.3	0.6	1.7	0.4
	7.6	3.6	16.8	10.1

Notes

¹ Arthur Andersen resigned as auditors on 24 June 2002. These amounts were paid to them in their capacity as auditors for the years ended 31 December 2001 and 2000.

² Further assurance services comprise due diligence and transaction support services.

All non-audit services require pre-approval by the Audit committee.

Auditors other than Deloitte & Touche and Arthur Andersen were paid £0.2 million (2001: £0.5 million, 2000: £0.4 million) for audit services. In 2002 fees paid to auditors in respect of due diligence and transaction services, included in further assurance and other non-audit services above, of £1.5 million (2001: £6.5 million, 2000: £3.9 million) were capitalised.

Depreciation segment information

The following table shows depreciation expense attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	51.9	48.3	30.6
Information, insight & consultancy	17.8	18.1	10.8
Public relations & public affairs	14.9	14.1	6.5
Branding & identity, Healthcare and Specialist communications	32.0	29.4	15.9
	116.6	109.9	63.8

Goodwill amortisation segment information

The following table shows goodwill amortisation attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	0.8	-	-
Information, insight & consultancy	8.4	3.9	-
Public relations & public affairs	1.2	0.7	-
Branding & identity, Healthcare and Specialist communications	21.6	10.2	6.6
	32.0	14.8	6.6

2 Operating costs (continued)

Minimum committed annual rentals

Amounts payable (net of taxation) in 2003 under the foregoing leases will be as follows:

	Plant and machinery			Land and buildings		
	2003 £m	2002 £m	2001 £m	2003 £m	2002 £m	2001 £m
In respect of operating leases which expire:						
- within one year	8.8	7.6	5.4	20.5	33.4	10.2
- within two to five years	22.2	20.8	16.2	88.9	72.1	39.1
- after five years	1.8	1.4	0.3	73.9	90.9	62.3
	32.8	29.8	21.9	183.3	196.4	111.6

Future minimum annual amounts payable (net of taxation) under all lease commitments in existence at 31 December 2002 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2003	216.1	(16.9)	199.2
2004	173.2	(15.7)	157.5
2005	148.0	(13.7)	134.3
2006	114.6	(10.3)	104.3
2007	87.5	(7.5)	80.0
Later years (to 2013)	260.1	(27.1)	233.0
	999.5	(91.2)	908.3

3 Our people

Our staff numbers averaged 50,417 against 50,487 in 2001, including acquisitions. Their geographical distribution was as follows:

	2002 Number	2001 Number	2000 Number
UK	6,783	6,797	5,425
US	13,535	14,831	11,058
Continental Europe	13,908	13,006	7,985
Canada, Asia Pacific, Latin America, Africa & Middle East	16,191	15,853	11,689
	50,417	50,487	36,157

At the end of 2002 staff numbers were 49,439 compared with 51,009 in 2001.

Total staff costs were made up as follows:

	2002 £m	2001 £m	2000 £m
Wages and salaries	1,604.7	1,664.0	1,125.1
Payments and provisions charged under short- and long-term incentive plans	90.1	81.1	118.3
Social security costs	181.7	182.2	120.5
Other pension costs (note 22)	60.6	55.7	39.4
Other staff costs	292.9	285.9	212.9
	2,230.0	2,268.9	1,616.2
Staff cost to revenue ratio	57.1%	56.4%	54.2%

Directors' emoluments are disclosed on page 79.

4 Fixed asset gains, write-down of fixed asset investments and other items impacting Quality of Earnings

Disposal of freehold properties and fixed asset investments

The profits on disposal of fixed assets comprise:

	2002 £m	2001 £m	2000 £m
Profits on disposal of freehold properties	3.6	-	-
Profits on disposal of investments	5.6	6.8	-
	9.2	6.8	-

Profits were realised on the disposal of two freehold properties in the UK and on a number of minority investments in new media and marketing services companies in the US and UK.

4 Fixed asset gains, write-down of fixed asset investments and other items impacting Quality of Earnings (continued)

Write-down of fixed asset investments

Amounts written off fixed asset investments of £19.9 million (2001: £70.8 million, 2000: £nil) relate to write-downs on certain non-core minority investments in new media companies and other technology ventures in light of the continuing decline in technology equity valuations. Following these write-downs, investments in which the Group has less than a 20% interest amount to £25.0 million (note 15).

These transactions did not have a material effect on the Group's tax charge (2001: £8.6 million charge, 2000: £nil) or minority interest (2001: £nil, 2000: £nil).

Other items

During the year, the Group continued to take measures to reduce its fixed and variable cost base in response to the continuing global downturn in its core markets. These actions resulted in a number of charges which, although recurring in nature, were at a considerably higher level than would normally be expected. These items principally comprised property rationalisation costs and severance payments. In addition, due to the above market factors, amounts were written off trade receivables and other current assets.

At the same time the Group has released £13.0 million (2001: £22.5 million, 2000: £7.9 million) to operating profit relating to excess provisions established in respect of acquisitions completed prior to 2001.

Management consider that the combination of the above charges and releases, when taken together, in no way impacts the Group's quality of earnings.

5 Net interest payable and similar charges

	2002 £m	2001 £m	2000 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	6.3	6.2	3.2
– repayable within five years, not by instalments	33.8	44.8	38.7
– on all other loans (including corporate and convertible bonds)	67.7	39.9	14.7
Interest payable of associate undertakings	1.8	0.7	–
Total interest payable	109.6	91.6	56.6
Interest receivable of associate undertakings	(2.2)	(1.7)	(0.2)
Gain on purchase of Eurobond	(1.2)	–	–
Interest receivable	(31.0)	(33.5)	(22.3)
Net interest payable	75.2	56.4	34.1
Charges in respect of working capital facilities	4.4	11.1	16.2
Net interest payable and similar charges on net borrowings	79.6	67.5	50.3
Net interest charges on defined benefit pension schemes (note 22)	6.8	3.8	1.4
	86.4	71.3	51.7

Interest payable on the Group's borrowings, other than the bonds, is payable at a margin of between 0.4% and 0.475% over relevant LIBOR.

The majority of the Group's long-term debt is represented by \$300 million of USA bonds at a weighted average of 6.71%, €955 million of Eurobonds at a rate of 5.68% (prior to interest rate swaps (note 9)), £450 million of convertible bonds at 3% (including redemption premium accrual and prior to the cross-currency swaps (note 9)) and \$287.5 million of convertible bonds at a rate of 3%.

Average borrowings under the Syndicated Revolving Credit Facilities (note 9) amounted to \$388.7 million at an average interest rate of 2.6% (2001: 4.7%, 2000: 6.2%) inclusive of margin.

Derivative financial instruments

	2002		2001		2000	
	€	\$	€	\$	\$	\$
Interest rate swaps						
Notional principal amount	€400m	\$200m	€400m	\$250m	\$350m	
Average pay rate	EURIBOR +0.81%	LIBOR 6.22%	EURIBOR +0.81%	LIBOR 6.2%	LIBOR 6.17%	
Average receive rate	6.0%	LIBOR	6.0%	LIBOR	LIBOR	
Average term	67 months	0.4 months	79 months	10 months	5 months	
Latest maturity date	Jun 2008	Jan 2003	Jun 2008	Jan 2003	Jan 2003	
	2002 £/€	2002 £/\$	2002 £/\$	2002 £/\$	2002 £/Yen	
Cross currency swaps						
£ Principal receivable	£31.055m	£52.668m	£163.501m		£47.934m	
Currency principal payable	€50m	\$75m	\$235m		Yen9,000m	
Currency rate payable	EURIBOR –2.0775%	LIBOR –2.068%	LIBOR –1.7775%	LIBOR –1.7775%	FIXED –1.2925%	
£ rate receivable	3.43%	3.43%	3.43%		3.43%	

5 Net interest payable and similar charges (continued)

The Group enters into interest rate swap agreements to manage its proportion of fixed and floating rate debt. The Group also entered cross-currency swap agreements to match the currency of its debt with the currency of its cash flows.

The differential paid or received by the Group on the interest element of 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 interest rate derivative financial instruments.

The fair value of derivatives is disclosed in note 23. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 98 and 99.

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2002 £m	2001 £m	2000 £m
Corporation tax at 30% (2001: 30%, 2000: 30%)	22.3	24.9	6.4
Deferred taxation	(1.5)	(5.5)	(10.6)
Overseas taxation	71.5	97.2	100.3
Tax on profits of associate companies	11.1	16.4	13.6
Tax on investment gains and other items (note 4)	–	(6.9)	–
	103.4	126.1	109.7
Effective tax rate on profit before tax	50.3%	30.7%	30.0%
Effective tax rate on headline profit before tax (note 28)	25.8%	26.9%	28.7%
Total current tax	93.8	122.1	106.7
Total deferred tax	(1.5)	(5.5)	(10.6)
Share of associates tax	11.1	16.4	13.6
Tax on investment gains and other items	–	(6.9)	–
Total tax on profits on ordinary activities	103.4	122.1	109.7
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%, 2000: 30%)	52.6	111.1	98.3
Effects of:			
Utilisation of tax losses brought forward	(1.3)	(16.1)	(9.7)
Unused tax losses carried forward	11.1	22.9	9.4
Y&R acquisition attributes	(27.6)	(32.1)	–
Differences between UK and overseas statutory tax rates	17.3	19.4	12.8
Permanent differences between expenditures charged in arriving at income and expenditure allowed for tax purposes	41.7	16.9	(4.1)
Total current tax	93.8	122.1	106.7

The Group obtains tax deductions in certain jurisdictions that are permanent differences and hence are not included within the potential deferred tax asset disclosed in note 17. The gross amount of these unutilised deductions is £436.7 million.

7 Ordinary dividends

	2002	2001	2000	2002	2001	2000
Per share	Pence per share			£m	£m	£m
Interim dividend paid	1.73p	1.44p	1.20p	20.0	16.4	9.3
Final dividend proposed	3.67p	3.06p	2.55p	42.5	35.2	28.5
	5.40p	4.50p	3.75p	62.5	51.6	37.8
Per ADR	Cents per ADR			\$m	\$m	\$m
Interim dividend paid	13.0c	10.4c	9.1c	30.1	23.6	14.1
Final dividend proposed	27.6c	22.0c	19.3c	63.9	50.7	43.2
	40.6c	32.4c	28.4c	94.0	74.3	57.3

Notes

These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 107. This conversion 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.

8 Earnings per ordinary share

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

Headline basic earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million), and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £195.2 million (2001: £82.6 million, 2000: £16.5 million). The weighted average number of shares in issue used was 1,110,556,878 shares (2001: 1,101,937,750 shares, 2000: 834,280,801 shares).

Headline diluted earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million) and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £195.2 million (2001: £82.6 million, 2000: £16.5 million). The weighted average number of shares in issue used was 1,136,548,459 shares (2001: 1,157,080,255 shares, 2000: 865,978,000 shares). This takes into account the exercise of employee share options, where these are expected to dilute earnings, and convertible debt. For the year ended 31 December 2002 both the \$287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. For the years ended 31 December 2001 and 31 December 2000 the \$287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million (2000: £0.9 million) for the purposes of this calculation.

Standard basic earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million) and weighted average shares in issue during the period of 1,110,556,878 shares (2001: 1,101,937,750 shares, 2000: 834,280,801 shares).

Standard diluted earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million). The weighted average number of shares used was 1,136,548,459 shares (2001: 1,157,080,255 shares, 2000: 865,978,000 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings and convertible debt. For the year ended 31 December 2002 both the \$287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. For the year ended 31 December 2001 the \$287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million (2000: £0.9 million) for the purposes of this calculation.

Basic and diluted earnings per ADR have been calculated using the same method as earnings per share, multiplied by a factor of five.

At 31 December 2002 there were 1,157,325,640 ordinary shares in issue.

9 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:

	2002 Shares £m	2002 Debt £m	2001 Shares £m	2001 Debt £m	2000 Shares £m	2000 Debt £m
Analysis of changes in financing						
Beginning of year	920.2	1,227.6	820.2	794.6	680.4	459.5
Shares issued in respect of acquisitions	0.2	-	0.7	-	30.2	-
Share cancellations	(0.2)	-	-	-	-	-
Share issue costs paid	(1.0)	-	-	-	-	-
Other issues of share capital	33.1	-	99.3	-	109.6	-
Increase in drawings on bank loans and convertible bonds	-	210.7	-	439.0	-	126.6
Debt acquired	-	-	-	-	-	194.9
Net amortisation/(payment) of financing costs included in net debt	-	(0.7)	-	(8.0)	-	0.5
Exchange adjustments on long-term borrowings	-	(23.6)	-	2.0	-	13.1
End of year	952.3	1,414.0	920.2	1,227.6	820.2	794.6

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

Shares

At 31 December 2002, the Company's share base was entirely composed of ordinary equity share capital and share premium of £952.3 million (2001: £920.2 million, 2000: £820.2 million), further details of which are disclosed in notes 24 and 25.

Debt

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

Eurobond The Group has in issue €350 million of 5.125% bonds due 2004 and €605 million bonds of 6.0% due 2008. During 2002, the Group purchased €45 million of the 6% bonds due 2008 in the open market at a price of 94.72%. The total cost of these market purchases was €43.6 million including accrued interest. The gain recorded was €2.3 million and was included within interest income in the profit and loss account.

9 Sources of finance (continued)

Revolving Credit Facilities The Group's debt is also funded by a five-year \$750 million Revolving Credit Facility due September 2006. A facility of £360 million, arranged during 2001 to acquire Tempus Group plc, was cancelled as at April 2002. The Group's syndicated borrowings drawn down, predominantly in US dollars, under these agreements averaged \$388.7 million (2001: \$533.7 million, 2000: \$422.0 million). The Group had available undrawn committed facilities of £466 million at 31 December 2002 (2001: £664 million, 2000: £407 million).

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 bonds due 15 January 2005. At the option of the holder, the bonds are convertible into 3,272,400 WPP ADRs at a conversion price of \$87.856. The bonds may be redeemed at WPP's option on or after 20 January 2003. Interest on the bonds is payable on 15 January and 15 July of each year, beginning on 15 July 2000. The bonds are unsecured obligations of Y&R and are guaranteed by WPP.

In April 2002, the Group issued £450 million of 2% convertible bonds due April 2007. At the option of the holder, the bonds are convertible into 41,860,465 WPP ordinary shares at an initial share price of £10.75. As the bonds are redeemable at a premium of 5.35% over par, the conversion price increases during the life of the bonds to £11.33 per share into the same number of shares as above.

Current asset investments/liquid resources

At 31 December 2002, the Group had £190.4 million (2001: £76.8 million, 2000: £Nil) of cash deposits with a maturity greater than 24 hours.

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

	2002 £m	Change ¹ in year £m	2001 £m	Change in year £m	2000 £m
Debt					
Within one year	(11.5)	(11.5)	-	-	-
Between one and two years	(227.4)	(5.7)	(221.7)	(221.7)	-
Between two and three years	(302.3)	(90.3)	(212.0)	190.8	(402.8)
Between three and four years	-	334.0	(334.0)	(334.0)	-
Between four and five years	(420.1)	(420.1)	-	324.9	(324.9)
Over five years	(452.7)	7.2	(459.9)	(393.0)	(66.9)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	(1,414.0)	(186.4)	(1,227.6)	(433.0)	(794.6)
Short-term overdrafts - within one year	(188.2)	131.7	(319.9)	(22.3)	(297.6)
Debt financing	(1,602.2)	(54.7)	(1,547.5)	(455.3)	(1,092.2)
Cash at bank and in hand	689.1	103.5	585.6	(482.0)	1,067.6
Current asset investments	190.4	113.6	76.8	76.8	-
Net debt	(722.7)	162.4	(885.1)	(860.5)	(24.6)

Notes

¹ Includes £Nil (2001: £Nil) of debt, £2.1 million (2001: £86.5 million) of short-term overdrafts and £64.9 million (2001: £65.4 million) of cash at bank acquired.

Analysis of fixed and floating rate debt by currency including the effect of interest rate and cross-currency swaps:

2002 Currency	£m	Fixed rate ¹	Floating basis	Period (months) ²
\$ - fixed	489.1 ²	5.23%	n/a	26
- floating	285.7 ²	n/a	LIBOR	n/a
£	154.8	3%	n/a	52
€ - fixed	361.7	5.45%	n/a	36
- floating	293.3	n/a	EURIBOR	n/a
¥ - floating	47.1	n/a	LIBOR	n/a
Other	(0.3)	n/a	VARIOUS	n/a
	1,631.4			
2001 Currency	£m	Fixed rate¹	Floating basis	Period (months)²
\$ - fixed	486.5 ²	5.11%	n/a	40
- floating	51.6	n/a	LIBOR	n/a
£	130.0	n/a	LIBOR	n/a
€ - fixed	367.6	5.49%	n/a	50
- floating	275.7	n/a	EURIBOR	n/a
Other	(1.3)	n/a	Various	n/a
	1,310.1			

Notes

¹ Weighted average.

² Including drawings on working capital facility as described in note 18.

Our 2002 financial statements

Notes to the consolidated financial statements (continued)

9 Sources of finance (continued)

2000 Currency	£m	Fixed rate ¹	Floating basis	Period (months) ²
\$ – fixed	624.9 ²	5.37%	n/a	42
– floating	148.0	n/a	LIBOR	n/a
£	178.0	n/a	LIBOR	n/a
€	71.6	n/a	LIBOR	n/a
Other	3.7	n/a	various	n/a
	1,026.2			

Notes

¹ Weighted average.

² Including drawings on working capital facility as described in note 18.

10 Reconciliation of operating profit to net cash inflow from operating activities

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:

	2002 £m	2001 £m	2000 £m
Changes in working capital and provisions			
(Increase)/decrease in stocks and work in progress	(70.7)	18.1	(14.7)
Increase in debtors	(18.1)	(4.7)	(434.9)
Increase/(decrease) in creditors – short term	307.4	(473.4)	537.8
– long term	0.6	(25.4)	1.7
(Decrease)/increase in provisions	(8.7)	27.4	74.9
Decrease/(increase) in working capital and provisions	210.5	(458.0)	164.8

The main reconciliation is disclosed along with the cash flow statement on page 108.

11 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 108:

	2002 £m	2001 £m	2000 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	(98.9)	(84.2)	(76.2)
Interest received	32.7	38.6	17.9
Dividends paid to minorities	(12.0)	(10.8)	(7.7)
Net cash outflow	(78.2)	(56.4)	(66.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 14)	(100.5)	(118.1)	(111.9)
Purchase of own shares by ESOP trust (note 15)	(67.6)	(103.3)	(94.1)
Proceeds from sale of tangible fixed assets and other movements	10.2	4.2	6.9
Net cash outflow	(157.9)	(217.2)	(199.1)
Acquisition and disposals			
Initial cash consideration for acquisitions	(141.2)	(616.0)	(161.3)
Earnout payments	(82.4)	(74.1)	(40.3)
Loan note redemptions	(93.7)	(2.7)	(4.9)
Less cash/(overdraft) acquired	62.8	(21.1)	(33.6)
Purchase of other investments	(26.1)	(43.2)	(40.9)
Proceeds from disposal of other investments	3.3	26.8	–
Net cash outflow	(277.3)	(730.3)	(281.0)
Financing activities			
(Reduction)/increase in drawings on bank loans	(239.3)	(175.3)	126.6
Financing costs and share issue	(12.9)	(8.8)	–
Proceeds from issue of shares	24.4	69.0	78.0
Proceeds from issue of Eurobond	–	614.1	–
Proceeds from issue of convertible bond	450.0	–	–
Share cancellations	(8.3)	–	–
Net cash inflow	213.9	499.0	204.6

12 Segment information

Net assets by geographical area were as follows:

	2002 £m	2001 £m	2000 £m
UK	919.9	752.6	148.2
US	3,069.7	2,821.3	2,606.5
Continental Europe	195.1	450.3	279.3
Canada, Asia Pacific, Latin America, Africa & Middle East	252.4	501.8	384.7
	4,437.1	4,526.0	3,418.7
Net interest bearing debt	(722.7) ¹	(885.1)	(24.6)
Net assets including pension provision	3,714.4	3,640.9	3,394.1

Net assets by operating sector were as follows:

	2002 £m	2001 £m	2000 £m
Advertising and Media	4,229.0	3,548.5	2,542.4
Investment management	(22.3)	310.7	154.6
Information, insight & consultancy	(104.0)	241.4	223.3
Public relations & public affairs			
Branding & identity, Healthcare and Specialist communications	334.4	425.4	498.4
	4,437.1	4,526.0	3,418.7
Net interest bearing debt	(722.7) ¹	(885.1)	(24.6)
Net assets including pension provision	3,714.4	3,640.9	3,394.1

Notes

¹ The net interest bearing debt has not been allocated within the above analyses as the debt is held centrally and specifically allocating it to individual segments is not considered to be a fair representation of the net assets of those segments.

Certain items, including the amounts in respect 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.

13 Intangible fixed assets

	2002 £m	2001 £m	2000 £m
Corporate brand names	950.0	950.0	950.0
Corporate brand names represent J. Walter Thompson Company, Hill & Knowlton, Ogilvy & Mather Worldwide and the Young & Rubicam Group. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 104.			
Goodwill			£m
1 January 2001			3,497.3
Additions			957.7
Amortisation			(14.8)
Disposals			(0.3)
31 December 2001			4,439.9
Additions			144.8
Amortisation			(32.0)
Impairment			(145.7)
31 December 2002			4,407.0

Additions represent goodwill arising on the acquisition of subsidiary undertakings. Goodwill arising on the acquisition of associate undertakings is shown within fixed asset investments in note 15.

Gross goodwill of £572.3 million (2001: £340.0 million, 2000: £131.0 million) is subject to amortisation over periods of up to 20 years.

In accordance with the Group's accounting policy, the Group annually tests the carrying value of indefinite life goodwill and other intangible assets for impairment. Goodwill subject to periodic amortisation is tested for impairment if there is a change in circumstances that suggests that the carrying value may not be recoverable.

The 2002 impairment review was initially undertaken as at 30 June 2002 and then updated as at 31 December 2002. The review assessed whether the carrying value of goodwill was supported by the net present value of future cashflows derived from assets using a projection period of up to five years for each income generating unit. After the projection period, growth rates of nominal GDP have been assumed for each income generating unit.

Notes to the consolidated financial statements (continued)

13 Intangible fixed assets (continued)

The impairment reviews relating to Young & Rubicam (goodwill of £2,498.3 million) and Mediaedge:cia (goodwill of £838.5 million) were carried out using a 10 year projection period as the Group believes that this longer period is more appropriate to assess the carrying value of these global networks given current economic volatility. The projections for the initial three years were derived from existing budgets and three year plans and form the base period. Projections for the remaining seven years assume an annual 4.4% growth in revenues and an improvement in operating margins to 17% by 2007. At the end of the 10 year period growth is assumed to be in line with nominal GDP.

The projections above include assumptions about payments for cash taxes and cashflows have therefore been discounted using the Group's weighted average cost of capital of 8.5%.

14 Tangible fixed assets

The movements in 2002 and 2001 were as follows:

	Land and buildings				Total £m
	Freehold ¹ £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	
Cost:					
1 January 2001	70.3	239.8	247.3	319.6	877.0
Additions	0.6	30.0	24.9	62.6	118.1
New acquisitions	1.1	12.2	23.6	31.0	67.9
Disposals	(0.3)	(6.6)	(20.3)	(24.0)	(51.2)
Exchange adjustments	(0.7)	2.0	1.3	6.3	8.9
31 December 2001	71.0	277.4	276.8	395.5	1,020.7
Additions	3.0	28.5	15.9	53.1	100.5
New acquisitions	0.8	2.0	6.6	5.7	15.1
Disposals	(7.9)	(30.0)	(34.1)	(40.5)	(112.5)
Exchange adjustments	(6.9)	(23.2)	(20.5)	(28.3)	(78.9)
31 December 2002	60.0	254.7	244.7	385.5	944.9
Depreciation:					
1 January 2001	18.7	106.4	157.8	203.9	486.8
New acquisitions	0.3	5.6	12.7	19.9	38.5
Charge	0.6	23.7	25.7	59.9	109.9
Disposals	(0.1)	(4.6)	(18.5)	(22.2)	(45.4)
Exchange adjustments	0.1	2.0	1.1	(5.1)	(1.9)
31 December 2001	19.6	133.1	178.8	256.4	587.9
New acquisitions	0.2	0.9	7.3	3.3	11.7
Charge	0.4	27.0	27.4	61.8	116.6
Disposals	(1.6)	(28.8)	(31.2)	(38.2)	(99.8)
Exchange adjustments	(2.0)	(13.7)	(15.9)	(17.2)	(48.8)
31 December 2002	16.6	118.5	166.4	266.1	567.6
Net book value:					
31 December 2002	43.4	136.2	78.3	119.4	377.3
31 December 2001	51.4	144.3	98.0	139.1	432.8
1 January 2001	51.6	133.4	89.5	115.7	390.2

Notes

¹ Includes land of £18.3 million.

Leased assets (other than leasehold property) included above have a net book value of £3.8 million (2001: £3.8 million, 2000: £3.6 million). Future obligations in respect of these leased assets were £1.6 million at 31 December 2002 and are included in other creditors.

At the end of the year, capital commitments contracted, but not provided for in respect of tangible fixed assets were:

	2002 £m	2001 £m	2000 £m
Capital commitments – tangible fixed assets	9.1	3.7	12.6

15 Fixed asset investments

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

	Associate under- takings £m	associate under- takings £m	Goodwill on Own shares £m	Other invest- ments £m	Total £m
1 January 2001	165.8	142.0	160.2	83.5	551.5
Additions	5.4	–	103.3	9.0	117.7
Goodwill arising on acquisition of new associates	–	38.8	–	–	38.8
Share of profits after tax of associate undertakings	18.1	–	–	–	18.1
Dividends and other movements	(28.6)	–	–	(0.3)	(28.9)
Exchange adjustments	(15.5)	–	–	–	(15.5)
Disposals	(2.5)	–	(13.1)	–	(15.6)
Reclassification to subsidiaries	(32.2)	–	–	(9.6)	(41.8)
Write-downs	(13.7)	–	–	(57.1)	(70.8)
31 December 2001	96.8	180.8	250.4	25.5	553.5
Additions	0.3	–	67.6	15.9	83.8
Goodwill arising on acquisition of new associates	–	10.2	–	–	10.2
Share of profits after tax of associate undertakings	18.0	–	–	–	18.0
Dividends and other movements	7.1	–	–	(4.9)	2.2
Exchange adjustments	(0.6)	–	–	(0.6)	(1.2)
Disposals	(0.6)	–	(5.8)	(1.7)	(8.1)
Reclassification from/(to) subsidiaries	17.2	(30.5)	–	3.5	(9.8)
Write-downs	(7.2)	–	–	(12.7)	(19.9)
31 December 2002	131.0	160.5	312.2	25.0	628.7

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Brierley & Partners	20.3	US
Chime Communications PLC	20.1	UK
DYR Tokyo Agency	49.0	Japan
High Co S.A.	32.0	France
IBOPE Group	31.2	Brazil
Singleton, Ogilvy & Mather (Holdings) Pty Limited	40.8	Australia

The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Ownership 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 83 to 91.

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 2002 was 58,210,657 (2001: 48,716,092, 2000: 36,208,185) and £276.2 million (2001: £370.2 million, 2000: £315.7 million) respectively. The trust received dividends on the shares held, as the right to dividends has not been waived by the trustees.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2002 was as follows: Asatsu-DK: £107.9 million, Chime Communications PLC: £4.5 million, High Co S.A.: £29.2 million. The carrying value (including goodwill) of these equity interests in the Group's balance sheet at 31 December 2002 was as follows: Asatsu-DK: £126.7 million, Chime Communications PLC: £2.5 million, High Co S.A.: £38.1 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Summarised financial information

The following tables present a summary of the aggregate financial performance and net asset position of the Group's principal associate undertakings. These have been estimated and converted, where appropriate, to a UK GAAP presentation based on information provided by the relevant companies at 31 December 2002. Total revenue generated by all the Group's associates is estimated to be £736.0 million for the year ended 31 December 2002.

	2002 £m	2001 £m	2000 £m
Profit and loss account			
Revenue	448.9	485.9	434.3
Operating profit	53.0	75.9	67.2
Profit before tax	57.0	89.0	79.9
Profit attributable to ordinary share owners	47.9	49.2	44.8

Our 2002 financial statements

Notes to the consolidated financial statements (continued)

15 Fixed asset investments (continued)

	2002 £m	2001 £m	2000 £m
Balance sheet			
Current assets	850.6	936.2	864.8
Non-current assets	604.4	798.4	572.9
Current liabilities	698.5	775.6	711.8
Non-current liabilities	109.5	203.1	99.8
Net assets	647.0	755.9	626.1

Associate segment information

The following table shows the carrying value of associate undertakings (including goodwill) attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	195.3	179.3	219.4
Information, insight & consultancy	26.8	28.7	28.8
Public relations & public affairs	2.8	2.6	2.9
Branding & identity, Healthcare and Specialist communications	66.6	67.0	56.7
	291.5	277.6	307.8

The following table shows the income (before interest and taxation) attributable to associate undertakings in each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	21.1	23.5	22.3
Information, insight & consultancy	5.7	6.3	4.6
Public relations & public affairs	(1.6)	1.9	3.9
Branding & identity, Healthcare and Specialist communications	4.8	9.1	7.2
	30.0	40.8	38.0

At the end of the year, capital commitments contracted, but not provided for in respect of fixed asset investments were:

	2002 £m	2001 £m	2000 £m
Capital commitments – fixed asset investments	49.4	–	–

Capital commitments for fixed asset investments comprise capital calls and cash in escrow committed for acquisitions expected to complete in 2003. 2002 commitments include £39.9 million of cash held in escrow in respect of the acquisition of a 36% equity investment in LG Ad, Korea's second largest advertising agency. This transaction subsequently completed in January 2003.

16 Stocks and work in progress

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

	2002 £m	2001 £m	2000 £m
Work in progress	288.8	234.4	238.2
Stocks	2.8	2.5	2.9
	291.6	236.9	241.1

17 Debtors

The following are included in debtors:

	2002 £m	2001 £m	2000 £m
Amounts falling due within one year			
Trade debtors outside working capital facility	1,753.0	1,840.5	1,699.4
VAT and sales taxes recoverable	32.3	31.9	20.9
Corporate income taxes recoverable	14.2	22.6	13.2
Deferred tax	61.6	61.5	57.4
Other debtors	239.7	266.6	229.6
Prepayments and accrued income	120.0	106.6	121.4
	2,220.8	2,329.7	2,141.9

17 Debtors (continued)

	2002 £m	2001 £m	2000 £m
Amounts falling due after more than one year			
Other debtors	32.8	42.7	31.2
Prepayments and accrued income	2.8	19.4	7.9
	35.6	62.1	39.1
	2,256.4	2,391.8	2,181.0

Movements on bad debt provisions were as follows:

	2002 £m	2001 £m	2000 £m
Balance at beginning of year	63.8	50.6	16.6
Charged/(credited):			
To costs and expenses	18.3	15.3	16.5
Exchange adjustments	(2.8)	4.1	0.8
Utilisations and other movements	(20.8)	(6.2)	16.7
Balance at end of year	58.5	63.8	50.6

The allowance for bad and doubtful debts is equivalent to 3.0% (2001: 3.1%, 2000: 2.6%) of gross trade accounts receivable.

A deferred tax asset of £110.8 million (2001: £122.0 million, 2000: £77.0 million) has not been recognised on losses available to carry forward and other timing differences across the Group in accordance with the Group's accounting policies. 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. A potential deferred tax liability of £12.1 million is required by FRS 19 to be offset against these gross deferred tax assets although this deferred tax liability would crystallise only in the unlikely event that the Group disposed of certain acquired entities in a manner that gave rise to a taxable transaction.

18 Debtors within working capital facility

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

	2002 £m	2001 £m	2000 £m
Gross debts	385.7	331.0	464.9
Non-returnable proceeds	(217.4)	(82.5)	(231.6)
	168.3	248.5	233.3

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 to a bankruptcy remote subsidiary of the Group, with further assignment to 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 the 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 transaction documents stipulate that, in the event of default in payment by a debtor, the providers of the facility may only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that recourse from the Group is not available in any other way.

19 Creditors: amounts falling due within one year

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

	2002 £m	2001 £m	2000 £m
Bank loans and overdrafts (note 9)	199.7	319.9	297.6
Trade creditors	2,477.8	2,506.2	2,574.9
Corporate income taxes payable	29.9	51.3	42.4
Other taxation and social security	111.7	116.1	122.5
Dividends proposed (note 7)	42.5	35.2	28.5
Payments due to vendors (earnout agreements)	73.6	103.1	94.1
Loan notes due to vendors	27.3	61.5	6.8
Other creditors and accruals	822.6	806.5	818.0
Deferred income	335.0	322.2	267.6
	4,120.1	4,322.0	4,252.4

Bank loans and overdrafts include overdrafts of £188.2 million (2001: £319.9 million, 2000: £297.6 million).

Notes to the consolidated financial statements (continued)

20 Creditors: amounts falling due after more than one year

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

	2002 £m	2001 £m	2000 £m
Corporate bonds and bank loans (note 9)	773.9	1,029.9	602.1
Convertible bonds (note 9)	628.6	197.7	192.5
Corporate income taxes payable	215.7	222.2	212.5
Payments due to vendors (earnout agreements)	164.2	185.1	208.2
Other creditors and accruals	55.1	76.6	64.3
	1,837.5	1,711.5	1,279.6

The following table sets out the directors' best estimates of future earnout related obligations:

	2002 £m	2001 £m	2000 £m
Within one year	73.6	103.1	94.1
Between one and two years	75.9	48.9	84.8
Between two and three years	20.8	60.0	45.5
Between three and four years	36.5	25.3	42.7
Between four and five years	29.0	43.3	19.7
Over five years	2.0	7.6	15.5
	237.8	288.2	302.3

The corporate bonds, convertible bonds, bank loans and overdrafts included within short- and long-term creditors fall due for repayment as follows:

	2002 £m	2001 £m	2000 £m
Within one year	199.7	319.9	297.6
Between one and two years	227.4	221.7	–
Between two and three years	302.3	212.0	402.8
Between three and four years	–	334.0	–
Between four and five years	420.1	–	324.9
Over five years	452.7	459.9	66.9
	1,602.2	1,547.5	1,092.2

21 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Other post-retirement benefits £m	Long-term incentive plans £m	Property and other £m	Total £m
1 January 2001	22.7	32.2	43.3	98.2
Charged to the profit and loss account	4.3	12.5	6.9	23.7
New acquisitions	–	–	15.0	15.0
Utilised	–	(13.0)	(5.3)	(18.3)
Transfers	–	(1.0)	(12.5)	(13.5)
Exchange adjustments	0.1	0.4	0.5	1.0
31 December 2001	27.1	31.1	47.9	106.1
Charged to the profit and loss account	0.3	30.7	1.9	32.9
New acquisitions	–	–	0.4	0.4
Utilised	–	(8.7)	(1.5)	(10.2)
Transfers	(11.7)	(1.8)	(8.3)	(21.8)
Exchange adjustments	(1.4)	(1.0)	(3.0)	(5.4)
31 December 2002	14.3	50.3	37.4	102.0

Other post-retirement benefits

These include provisions in respect of certain unfunded retirement benefit schemes which are defined contribution in nature.

Long-term incentive plans

Long-term incentive plans are operated by certain of the Group's operating companies, the provision representing accrued compensation to 31 December 2002 that may become payable after more than one year, as described in the Compensation committee report on pages 83 to 91.

21 Provisions for liabilities, charges and contingent liabilities (continued)**Property and other**

Property and 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 onerous lease obligations and contingent liabilities where the likelihood of settlement is considered probable.

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.

Contingent liabilities in respect of option agreements

WPP has entered into agreements with certain share owners of partially owned subsidiaries and associate companies to acquire equity interests. These agreements typically contain options requiring WPP to purchase their shares at specified times up to 2009 on the basis of average earnings both before and after the exercise of the option.

All arrangements contain clauses that cap the maximum amount payable by WPP. The table below shows the illustrative amounts that would be payable by WPP in respect of these options, on the basis of the relevant companies' current financial performance, if all the options had been exercised at 31 December 2002.

	Currently Exercisable £m	Not Currently Exercisable £m	Total £m
Subsidiaries	8.5	24.5	33.0
Associates	11.0	8.8	19.8
Total	19.5	33.3	52.8

22 Pension provisions and pension arrangements

Companies within the Group operate a large number of 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:

	2002 £m	2001 £m	2000 £m
Defined contribution schemes	49.2	41.4	30.1
Defined benefit schemes charge to operating profit	11.4	14.3	9.3
Other pension costs (note 3)	60.6	55.7	39.4
Net interest charges on defined benefit pension schemes (note 5)	6.8	3.8	1.4
	67.4	59.5	40.8

Defined benefit schemes

The pension costs are assessed in accordance with the advice of local independent qualified actuaries. The latest full actuarial valuations for the various schemes were carried out as at various dates in the last three years. These valuations have been updated by the local independent qualified actuaries to 31 December 2002.

The Group has a policy of closing defined benefit schemes to new members which has been effected in respect of a significant number of the schemes. As a result, these schemes generally have an ageing membership population. In accordance with FRS 17, the actuarial calculations have been carried out using the Projected Unit Method. In these circumstances, use of this method implies that the contribution rate implicit in the current service cost will increase in future years.

Contributions to funded schemes are determined in line with local conditions and practices. Certain contributions in respect of unfunded schemes are paid as they fall due. The total contributions (for funded schemes) and benefit payments (for unfunded schemes) paid for 2002 amounted to £21.5 million (2001: £13.5 million, 2000: £20.4 million).

22 Pension provisions and pension arrangements (continued)

(a) Assumptions

The main weighted average assumptions used for the actuarial valuations at 31 December are shown in the following table:

	2002 % pa	2001 % pa	2000 % pa	1999 % pa
UK				
Discount rate	5.5	5.8	5.5	5.8
Rate of increase in salaries	3.3	3.3	3.7	3.9
Rate of increase in pensions in payment	3.8	3.8	3.9	4.0
Inflation	2.5	2.5	3.0	3.3
Expected rate of return on equities	7.3	7.5	7.5	7.5
Expected rate of return on bonds ¹	4.8	5.0	5.0	5.0
Expected rate of return on property	6.8	7.0	7.0	7.0
Expected rate of return on cash	2.8	3.0	3.0	3.0
Weighted average return on assets	5.4	5.8	5.8	5.8
US				
Discount rate	6.8	7.5	7.9	7.4
Rate of increase in salaries	4.0	6.2	6.2	5.9
Rate of increase in pensions in payment	n/a	n/a	n/a	n/a
Inflation	3.0	3.4	4.0	3.8
Expected rate of return on equities	8.2	10.0	10.0	10.0
Expected rate of return on bonds ¹	5.3	7.0	7.0	7.0
Expected rate of return on property	n/a	n/a	n/a	n/a
Expected rate of return on cash	3.5	3.5	3.5	3.5
Weighted average return on assets	7.2	9.1	9.0	8.2
Continental Europe				
Discount rate	5.5	5.9	6.3	6.3
Rate of increase in salaries	3.1	2.4	2.4	2.4
Rate of increase in pensions in payment	1.7	1.0	0.8	0.9
Inflation	2.0	1.5	2.0	1.9
Expected rate of return on equities	7.5	6.0	6.0	6.0
Expected rate of return on bonds ¹	5.0	6.2	6.2	6.2
Expected rate of return on property	7.0	6.0	6.0	6.0
Expected rate of return on cash	3.0	6.0	6.0	6.0
Weighted average return on assets	6.0	6.1	6.1	6.1
Canada, Asia Pacific, Latin America, Africa & Middle East				
Discount rate	2.8	4.3	4.1	4.0
Rate of increase in salaries	2.7	2.5	2.6	2.6
Rate of increase in pensions in payment	n/a	n/a	n/a	n/a
Inflation	1.7	n/a	n/a	n/a
Expected rate of return on equities	n/a	n/a	n/a	n/a
Expected rate of return on bonds ¹	2.7	5.1	4.8	5.1
Expected rate of return on property	n/a	n/a	n/a	n/a
Expected rate of return on cash	6.0	n/a	n/a	n/a
Weighted average return on assets	2.8	5.1	4.8	5.1

Notes

¹Expected rate of return on bond assumptions reflects the yield expected on actual bonds held, whereas the discount rate assumptions are based on high quality bond yields.

(b) Assets and liabilities

At 31 December, the fair value of the assets in the schemes, and the assessed present value of the liabilities in the schemes are shown in the following table:

	2002 £m	2001 £m	2000 £m	1999 £m
Group				
Equities	115.8	152.9	159.7	80.5
Bonds	163.9	156.2	178.5	153.0
Property	10.8	10.2	11.0	10.7
Cash	4.5	4.1	4.4	4.3
Total fair value of assets	295.0	323.4	353.6	248.5
Present value of scheme liabilities	(479.8)	(458.7)	(441.3)	(294.1)
Deficit in the scheme	(184.8)	(135.3)	(87.7)	(45.6)
The related deferred tax asset is discussed in note 17.				
Deficit in schemes by region				
UK	(35.8)	(19.3)	(13.7)	(12.3)
US	(111.6)	(84.6)	(45.1)	(13.3)
Continental Europe	(31.3)	(23.7)	(21.2)	(12.2)
Canada, Asia Pacific, Latin America, Africa & Middle East	(6.1)	(7.7)	(7.7)	(7.8)
Deficit in the scheme	(184.8)	(135.3)	(87.7)	(45.6)

22 Pension provisions and pension arrangements (continued)

Some of the Group's defined benefit schemes are unfunded (or largely unfunded) by common custom and practice in certain jurisdictions.

In the case of these unfunded schemes, the benefit payments are made as and when they fall due. Pre-funding of these schemes would not be typical business practice. The following table shows the split of the deficit at 31 December 2002 between funded and unfunded schemes.

	Deficit £m	Funding period years
Funded schemes by region		
UK	35.8	8.2
US	68.5	8.4
Continental Europe	2.3	13.9
Canada, Asia Pacific, Latin America, Africa & Middle East	0.5	13.8
Deficit in the funded schemes	107.1	8.5
Unfunded schemes by region		
UK	–	–
US	43.1	13.3
Continental Europe	29.0	12.9
Canada, Asia Pacific, Latin America, Africa & Middle East	5.6	13.3
Deficit in the unfunded schemes	77.7	13.2

(c) Pension expense

The following table shows the breakdown of the pension expense between amounts charged to operating profit, amounts charged to net interest payable and similar charges and amounts recognised in the statement of total recognised gains and losses (STRGL):

	2002 £m	2001 £m	2000 £m
Group			
Current service cost	12.1	13.3	9.3
Past service cost	(0.7)	1.8	–
Gain on settlements and curtailments	–	(0.8)	–
Charge to operating profit	11.4	14.3	9.3
Expected return on pension scheme assets	(21.9)	(24.8)	(17.8)
Interest on pension scheme liabilities	28.7	28.6	19.2
Charge to net interest payable and similar charges	6.8	3.8	1.4
Charge to profit on ordinary activities before taxation for defined benefit schemes	18.2	18.1	10.7
Loss on pension scheme assets relative to expected return	36.7	46.0	9.2
Experience gains and losses arising on the scheme liabilities	3.6	8.4	10.5
Changes in assumptions underlying the present value of the scheme liabilities	21.5	(10.9)	5.6
Movement in exchange rates	(9.0)	(0.5)	1.7
Actuarial loss recognised in STRGL	52.8	43.0	27.0

(d) Movement in scheme deficit

The following table shows an analysis of the movement in the scheme deficit for each accounting period:

	2002 £m	2001 £m	2000 £m
Group			
Deficit at 1 January	135.3	87.7	45.6
Current service cost	12.1	13.3	9.3
Past service costs	(0.7)	1.8	–
Gain on settlements and curtailments	–	(0.8)	–
Acquisitions	–	–	24.8
Charge to net interest payable and similar charges	6.8	3.8	1.4
Actuarial loss	52.8	43.0	27.0
Employer contributions	(21.5)	(13.5)	(20.4)
Deficit at 31 December	184.8	135.3	87.7

22 Pension provisions and pension arrangements (continued)

(e) History of experience gains and losses

	2002 £m	2001 £m	2000 £m	1999 £m
Loss on pension scheme assets relative to expected return:				
Amount	36.7	46.0	9.2	0.7
Percentage of scheme assets	12.4%	14.2%	2.6%	0.3%
Experience losses arising on the scheme liabilities:				
Amount	3.6	8.4	10.5	0.4
Percentage of the present value of the scheme liabilities	0.8%	1.8%	2.4%	0.1%
Total loss recognised in STRGL:				
Amount	52.8	43.0	27.0	10.4
Percentage of the present value of the scheme liabilities	11.0%	9.4%	6.1%	3.5%

23 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 Mar 2003 Swaps £m	31 Dec 2002 Swaps £m	31 Dec 2001 Swaps £m	31 Dec 2000 Swaps £m
Fair Value	62.0	52.9	4.0	(0.5)
Book Value	29.8	28.2	6.1	0.7

The book value above represents net accrued interest and the foreign translation difference on the principal amounts.

As explained in the operating and financial review on pages 98 and 99, the Group's policy is to hedge the following exposures: interest rate risk – using interest swaps, caps and collars; currency swaps; and forward foreign currency contracts; structural and transactional currency exposures, and currency exposures on future expected sales – using currency swaps and forward foreign currency contracts.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 January 2002	11.1	(7.1)	4.0
Gains and losses arising in previous years that were recognised in 2002	4.9	(7.1)	(2.2)
Gains and losses arising in previous years that were not recognised in 2002	6.2	–	6.2
Gains and losses arising in 2002 that were not recognised in 2002	49.7	(3.0)	46.7
Unrecognised gains and losses on hedges at 31 December 2002	55.9	(3.0)	52.9
Of which:			
Gains and losses expected to be recognised in 2003	14.2	(0.2)	14.0
Gains and losses expected to be recognised in 2004 or later	41.7	(2.8)	38.9

The fair value of the above swaps has been obtained from a market data source.

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 2002 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) are considered to approximate fair value because of the short maturity of such instruments.

The fair value of our \$300 million bonds, €955 million Eurobonds, \$287.5 million convertible bond and £450 million convertible bond at 31 December 2002 was £1,419 million (book value: £1,437 million). This is calculated by reference to market prices at 31 December 2002. 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.

24 Authorised and issued share capital

	2002 Number m	2002 £m	2001 Number m	2001 £m	2000 Number m	2000 £m
Authorised:						
Equity ordinary shares of 10p each	1,750.0	175.0	1,750.0	175.0	1,750.0	175.0
Issued:						
Equity ordinary shares of 10p each	1,157.3	115.7	1,149.6	115.0	1,111.9	111.2

During the year the Group allotted 9 million shares with a nominal value of £0.9 million. Movements in each year are shown in note 25.

Share options

WPP Executive Share Option Scheme

As at 31 December 2002, unexercised options over ordinary shares of 27,987,302 and unexercised options over ADRs of 10,149,444 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
288,106	0.318	2000 – 2003
161,183	1.020	1996 – 2003
586,845	1.080	1998 – 2005
5,049	1.150	1997 – 2004
771,444	1.190	1997 – 2004
586,351	1.269	2000 – 2006
282,481	1.269	2000 – 2007
1,383,201	1.540	1998 – 2005
421,872	1.540	2000 – 2005
2,102,049	2.040	2000 – 2007
677,417	2.140	1999 – 2006
2,130,273	2.335	1999 – 2006
6,037	2.535	2000 – 2007
2,332,316	2.835	2000 – 2007
2,852,828	2.930	2001 – 2008
5,022	3.030	2001 – 2008
36,500	3.270	2001 – 2008
83,500	4.136	2000 – 2008
42,153	4.210	2005 – 2006
4,205,141	4.210	2005 – 2012
95,805	4.210	2005 – 2013
68,980	4.210	2006 – 2012
127,877	4.438	2005 – 2012
456,313	4.705	2000 – 2008
49,089	4.865	2004 – 2005
3,007,079	4.865	2004 – 2011
45,583	4.865	2005 – 2011
108,772	5.185	2002 – 2009
546,136	5.700	2002 – 2009
1,309,827	6.163	2000 – 2009
7,005	6.280	2004 – 2011
41,750	6.328	2000 – 2009
1,160,996	7.052	2000 – 2010
78,899	7.180	2005 – 2012
20,875	7.383	2000 – 2009
891,891	7.550	2005 – 2006
5,424	7.550	2006 – 2012
10,437	7.569	2000 – 2009
105,417	8.110	2004 – 2011
3,584	8.110	2004 – 2005
3,497	8.110	2005 – 2011
50,733	8.193	2004 – 2011
16,700	8.769	2000 – 2010
20,875	8.927	2000 – 2010
10,438	8.996	2000 – 2010
4,341	9.010	2003 – 2004
693,826	9.010	2003 – 2010
13,548	9.010	2004 – 2010
296	10.770	2003 – 2004
71,245	10.770	2003 – 2010
296	10.770	2004 – 2010

24 Authorised and issued share capital (continued)

Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
617,782	2.299	2000 – 2003
684,026	9.186	2000 – 2006
81,626	9.186	2000 – 2007
1,624,689	14.767	2000 – 2007
1,986,947	33.200	2005 – 2012
149,125	34.057	2000 – 2008
2,881	34.702	2005 – 2012
8,644	34.702	2007 – 2012
1,602,676	35.380	2004 – 2011
4,175	44.610	2000 – 2009
732,638	44.611	2000 – 2009
419,566	46.475	2002 – 2009
50,786	46.556	2000 – 2009
11,481	48.204	2000 – 2010
8,350	48.802	2000 – 2009
4,175	50.299	2000 – 2010
834,920	51.048	2000 – 2010
16,700	51.871	2000 – 2009
55,984	53.030	2005 – 2012
25,150	53.443	2000 – 2009
86,005	54.042	2000 – 2009
430,816	54.050	2005 – 2012
8,350	55.314	2000 – 2009
75,150	56.287	2000 – 2009
12,525	57.186	2000 – 2009
6,976	57.338	2003 – 2010
52,751	58.238	2004 – 2011
20,589	58.886	2004 – 2011
3,341	59.656	2000 – 2010
2,088	60.329	2000 – 2010
6,263	60.479	2000 – 2010
91,363	62.110	2003 – 2010
2,415	62.110	2005 – 2010
329,850	63.263	2003 – 2010
10,438	63.698	2000 – 2010
2,923	63.773	2000 – 2010
8,350	64.371	2000 – 2010
7,966	66.692	2000 – 2010
3,340	67.066	2000 – 2010
4,175	68.488	2000 – 2010
11,690	71.781	2000 – 2010
1,587	72.605	2000 – 2010
36,482	84.485	2003 – 2010
11,690	84.731	2000 – 2010

WPP Worldwide Share Ownership Program

As at 31 December 2002, unexercised options over ordinary shares of 3,739,675 and unexercised options over ADRs of 349,190 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
130,875	2.700	2000 – 2007
365,625	3.400	2001 – 2008
86,800	4.210	2005 – 2012
21,125	4.210	2005 – 2013
17,625	5.210	2004 – 2011
508,025	5.320	2002 – 2009
14,000	5.320	2003 – 2009
21,375	5.990	2004 – 2011
1,018,875	7.180	2005 – 2012
22,000	7.180	2006 – 2012
811,000	7.790	2003 – 2010
10,375	7.790	2003 – 2011
698,225	7.960	2004 – 2011
13,750	7.960	2005 – 2011

24 Authorised and issued share capital (continued)

Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
146,150	56.480	2004 – 2011
203,040	53.030	2005 – 2012

Tempus Group plc 1998 Long Term Incentive Plan

As at 31 December 2002, unexercised options over ordinary shares of 421,443 have been granted under the Tempus Group plc 1998 Long Term Incentive Plan as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
243,063	2.260	2001 – 2008
56,713	4.920	2001 – 2011
12,147	4.930	2001 – 2011
49,957	4.970	2001 – 2009
4,721	4.980	2001 – 2009
20,254	5.580	2001 – 2011
34,588	6.000	2001 – 2010

The aggregate status of the WPP Share Option Schemes during 2002 was as follows:

	1 January 2002 number	Granted number	Exercised number	Lapsed number	31 December 2002 number
WPP	38,315,390	20,392,177	(2,895,480)	(3,490,158)	52,321,929
Y&R	38,443,050	–	(5,198,517)	(1,346,315)	31,898,218
Tempus	421,443	–	–	–	421,443
	77,179,883	20,392,177	(8,093,997)	(4,836,473)	84,641,590

Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.318–10.770	4.077	84

Options outstanding over ADRs

Range of exercise prices \$	Weighted average exercise price \$	Weighted average contractual life Months
2.299–84.731	33.928	86

The weighted average fair value of options granted in the year calculated using the Black-Scholes model, was as follows:

	2002	2001	2000
Fair value of UK options (shares)	196.7p	212.0p	286.1p
Fair value of US options (ADRs)	\$13.95	\$13.65	\$16.18
Weighted average assumptions:			
UK Risk-free interest rate	4.51%	4.73%	6.02%
US Risk-free interest rate	3.01%	3.42%	5.94%
Expected life (months)	48	36	36
Expected volatility	45%	50%	40%
Dividend yield	1.0%	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 option element of the awards made under the Leadership Equity Acquisition Plan ('LEAP') in the year, calculated using the Black-Scholes model, was as follows:

	2002	2001	2000
Fair value	319.7p	236.2p	299.9p
Weighted average assumptions:			
Risk-free interest rate	5.06%	5.00%	5.80%
Expected life (months)	60	48	48
Expected volatility	45%	40%	40%
Dividend yield	1.0%	0.6%	0.6%

The option element was granted at an exercise price equal to market value on the date of grant.

Notes to the consolidated financial statements (continued)

25 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	Total £m
Balance at 1 January 2000	77.5	602.9	-	121.3	(123.2)	(345.3)	333.2
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) ¹	12.5
Currency translation movement	-	-	-	-	(133.0)	-	(133.0)
Retained profit for the financial year	-	-	-	-	-	206.9	206.9
Actuarial loss on defined benefit schemes	-	-	-	-	-	(27.0)	(27.0)
Balance at 31 December 2000	111.2	709.0	386.7	2,630.2	(256.2)	(211.0)	3,369.9

2001 movements

Ordinary shares issued in respect of acquisitions	0.7	-	1.6	62.4	-	-	64.7
Share issue costs charged to merger reserve	-	-	-	(1.0)	-	-	(1.0)
Other ordinary shares issued	3.1	96.2	(149.7)	133.1	-	(14.5) ¹	68.2
Currency translation movement	-	-	-	-	(80.6)	-	(80.6)
Retained profit for the financial year	-	-	-	-	-	219.6	219.6
Actuarial loss on defined benefit schemes	-	-	-	-	-	(43.0)	(43.0)
Write-back of goodwill on disposals of interest in associate undertaking	-	-	-	-	-	2.0	2.0
Balance at 31 December 2001	115.0	805.2	238.6	2,824.7	(336.8)	(46.9)	3,599.8

2002 movements

Ordinary shares issued in respect of acquisitions	0.2	-	-	8.0	-	-	8.2
Other ordinary shares issued	0.7	32.4	(42.9)	39.0	-	(4.9) ¹	24.3
Share issue costs charged to share premium account or merger reserve	-	(1.0)	-	(2.4)	-	-	(3.4)
Share cancellations	(0.2)	-	-	-	0.2	(8.3)	(8.3)
Currency translation movement	-	-	-	-	82.3	-	82.3
Retained profit for the financial year	-	-	-	-	-	25.5	25.5
Actuarial loss on defined benefit schemes	-	-	-	-	-	(52.8)	(52.8)
Balance at 31 December 2002	115.7	836.6	195.7	2,869.3	(254.3)	(87.4)	3,675.6

Other reserves at 31 December 2002 comprise: currency translation deficit £255.8 million (2001: £338.1 million, 2000: £257.5 million) and capital redemption reserve £1.5 million (2001: £1.3 million, 2000: £1.3 million).

The cumulative amount of goodwill written off against the Group's reserves, net of that relating to undertakings disposed of, is £1,158.4 million (2001: £1,158.4 million, 2000: £1,160.4 million).

Notes

¹ 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.

Reconciliation of movements in consolidated share owners' funds for the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
Profit for the year	88.0	271.2	244.7
Ordinary dividends payable	(62.5)	(51.6)	(37.8)
	25.5	219.6	206.9
Exchange adjustments on foreign currency net investments	82.3	(80.6)	(133.0)
Ordinary shares issued in respect of acquisitions	8.2	64.7	2,960.8
Exercises of options granted on acquisition of Young & Rubicam Inc	-	-	51.5
Share issue costs charged to share premium account or merger reserve	(3.4)	(1.0)	(35.0)
Other share issues	24.3	68.2	12.5
Share cancellations	(8.3)	-	-
Actuarial loss on defined benefit schemes	(52.8)	(43.0)	(27.0)
Write-back of goodwill on disposal of interest in associate undertaking	-	2.0	-
Net additions to equity share owners' funds	75.8	229.9	3,036.7
Opening equity share owners' funds	3,599.8	3,369.9	333.2
Closing equity share owners' funds	3,675.6	3,599.8	3,369.9

26 Acquisitions

The Group undertook a number of acquisitions in the year. Goodwill arising on these acquisitions and reforecasts to initial goodwill calculations for acquisitions completed in prior periods was calculated as follows:

	Book value of net assets acquired	Fair value adjustments	Fair value	Cost of acquisition	Goodwill
	£m	£m	£m	£m	£m
Acquisitions and reforecasts	62.0	(10.5)	51.5	206.5	155.0

Goodwill above of £155.0 million includes £144.8 million in respect of the acquisition of subsidiary undertakings and £10.2 million in respect of associate undertakings. Cash consideration for acquisitions is analysed in note 11.

Fair value adjustments of £10.5 million arising on these acquisitions include £3.2 million of additional tax liabilities and £7.3 million of other liabilities.

27 Principal operating subsidiary undertakings

The principal subsidiary undertakings of the Group are:

	Country of Incorporation
J. Walter Thompson Company, Inc	US
The Ogilvy Group, Inc	US
Young & Rubicam Inc	US
WPP Finance Co Limited	UK

With the exception of WPP Finance Co. Limited, which is involved in financing arrangements with other Group companies, all of these subsidiaries are operating companies. All of the above companies are 100% owned by the Group.

A more detailed list of the operating subsidiary undertakings is given on pages 10 and 11. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

Advantage has been taken of Section 231(5) of the Companies Act 1985 to list only those undertakings required by that provision, as an exhaustive list would involve a statement of excessive length.

28 Calculation of PBIT, PBT and headline earnings

Reconciliation of profit on ordinary activities before interest, taxation, fixed asset gains and write-downs to PBIT for the year ended 31 December:

	2002 £m	2001 £m	2000 £m
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	302.5	546.3	417.4
Goodwill amortisation and impairment	177.7	14.8	15.1
PBIT	480.2	561.1	432.5
Net interest payable and similar charges	86.4	71.3	51.7
Interest cover on PBIT	5.6 times	7.9 times	8.4 times
Interest cover on PBIT (excluding FRS 17 interest)			
PBIT	480.2	561.1	432.5
Net interest payable and similar charges on net borrowings	79.6	67.5	50.3
Interest cover (excluding FRS 17 interest)	6.0 times	8.3 times	8.6 times

Reconciliation of profit on ordinary activities before taxation to PBT and headline earnings for the year ended 31 December:

	2002 £m	2001 £m	2000 £m
Profit on ordinary activities before taxation	205.4	411.0	365.7
Goodwill amortisation and impairment	177.7	14.8	15.1
Profits on disposal of fixed assets	(9.2)	(6.8)	–
Amounts written off fixed asset investments	19.9	70.8	–
Net interest charges on defined benefit pension schemes	6.8	3.8	1.4
PBT	400.6	493.6	382.2
Taxation on profit on ordinary activities	(103.4)	(126.1)	(109.7)
Minority interests	(14.0)	(13.7)	(11.3)
Headline earnings	283.2	353.8	261.2
Ordinary dividends	62.5	51.6	37.8
Dividend cover on headline earnings	4.5 times	6.9 times	6.9 times

Calculation of effective tax rate on headline profit before tax:

	2002	2001	2000
Taxation	(103.4)	(126.1)	(109.7)
Tax on investment gains and other items	–	(6.9)	–
Taxation on headline profit before tax	(103.4)	(133.0)	(109.7)
PBT	400.6	493.6	382.2
Effective tax rate on headline profit before tax	25.8%	26.9%	28.7%

Company balance sheet

As at 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m
Fixed assets				
Tangible assets	29	17.0	15.4	13.4
Investments	30	6,846.3	7,116.7	6,042.2
		6,863.3	7,132.1	6,055.6
Current assets				
Debtors (including amounts falling due after more than one year)	31	839.9	879.8	148.0
Cash at bank and in hand		10.8	4.3	49.2
		850.7	884.1	197.2
Creditors: amounts falling due within one year	32	(1,810.8)	(2,179.9)	(997.3)
Net current liabilities		(960.1)	(1,295.8)	(800.1)
Total assets less current liabilities		5,903.2	5,836.3	5,255.5
Creditors: amounts falling due after more than one year (including convertible bonds)	33	(1,706.2)	(670.2)	(192.9)
Net assets		4,197.0	5,166.1	5,062.6
Capital and reserves				
Called up share capital	34	115.7	115.0	111.2
Share premium account	34	836.6	805.2	709.0
Shares to be issued	34	195.7	238.6	386.7
Merger reserve	34	2,905.3	2,860.7	2,665.2
Other reserves	34	91.7	91.5	91.5
Profit and loss account	34	52.0	1,055.1	1,099.0
Equity share owners' funds		4,197.0	5,166.1	5,062.6

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

Signed on behalf of the Board on 14 May 2003:

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 loss of £932.3 million (2001: profit of £7.7 million, 2000: profit of £932.0 million) in respect of the Company. This includes dividend income received from subsidiaries of £54.0 million (2001: £0.1 million, 2000: £923.0 million) and an impairment charge of £940.6 million (2001: £Nil, 2000: £Nil). The impairment charge arose as a result of the transfer of a number of non-operating, holding companies within the Group. The impairment charge arising as a result of this internal reorganisation has been offset against the Company's non-distributable reserves. These non-distributable reserves arose from dividends in 2000 (£901.7 million) and 2002 (£38.9 million) from the investments which have been impaired. This has no impact on the Company's distributable reserves.

Notes to the Company balance sheet

29 Tangible fixed assets

The movements in 2002 and 2001 were as follows:

	Short lease- hold £m	Fixtures, fittings and equip- ment £m	Com- puter equip- ment £m	Total £m
Costs:				
1 January 2001	1.3	0.5	15.0	16.8
Additions	0.7	–	4.7	5.4
Disposals	–	(0.1)	–	(0.1)
31 December 2001	2.0	0.4	19.7	22.1
Additions	1.4	–	5.0	6.4
Disposals	(0.2)	(0.1)	(0.2)	(0.5)
31 December 2002	3.2	0.3	24.5	28.0

29 Tangible fixed assets (continued)

	2002 £m	2001 £m	2000 £m	1999 £m
Depreciation:				
1 January 2001	0.4	0.3	2.7	3.4
Charge	0.4	–	3.0	3.4
Disposals	–	(0.1)	–	(0.1)
31 December 2001	0.8	0.2	5.7	6.7
Charge	0.5	–	4.3	4.8
Disposals	(0.2)	(0.1)	(0.2)	(0.5)
31 December 2002	1.1	0.1	9.8	11.0
Net book value:				
31 December 2002	2.1	0.2	14.7	17.0
31 December 2001	1.2	0.2	14.0	15.4
1 January 2001	0.9	0.2	12.3	13.4

30 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 2001	5,882.0	160.2	6,042.2
Additions	3,033.8	103.3	3,137.1
Disposals	(2,014.1)	(13.1)	(2,027.2)
Other movements	(35.4)	–	(35.4)
31 December 2001	6,866.3	250.4	7,116.7
Additions	5,239.2	67.6	5,306.8
Disposals	(4,626.9)	(5.8)	(4,632.7)
Write-downs	(940.6)	–	(940.6)
Other movements	(3.9)	–	(3.9)
31 December 2002	6,534.1	312.2	6,846.3

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

31 Debtors

The following are included in debtors:

	2002 £m	2001 £m	2000 £m
Amounts owed by subsidiary undertakings	800.8	826.7	112.2
Taxation and social security	5.3	6.8	–
Other debtors	33.8	46.3	35.8
	839.9	879.8	148.0

None of the above debtors fall due for repayment after more than one year.

32 Creditors: amounts falling due within one year

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

	2002 £m	2001 £m	2000 £m
Bank loans and overdrafts	52.7	85.7	10.9
Amounts due to subsidiary undertakings	1,671.0	1,968.5	912.2
Taxation and social security	1.8	–	0.8
Dividends proposed	42.5	35.2	28.5
Other creditors and accruals	42.8	90.5	44.9
	1,810.8	2,179.9	997.3

33 Creditors: amounts falling due after more than one year

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

	2002 £m	2001 £m	2000 £m
Bank loans	617.8	609.0	–
Convertible bond	447.5	–	–
Amounts due to subsidiary undertakings	626.2	49.4	182.7
Other creditors and accruals	14.7	11.8	10.2
	1,706.2	670.2	192.9

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

	2002 £m	2001 £m	2000 £m
Between one and two years	227.4	–	–
Between two and three years	–	213.3	–
Between three and four years	–	–	–
Between four and five years	447.5	–	–
Over five years	390.4	395.7	–

In March 2002, the Company issued £450 million of 2% convertible bonds due April 2007. These bonds are initially convertible into WPP ordinary shares at a share price of £10.75. Because the bonds are redeemable at a premium of 5.35% over par, the conversion price increases during the life of the bonds to £11.33 per share.

34 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	115.0	805.2	238.6	2,860.7	91.5	1,055.1
Ordinary shares issued in respect of acquisitions	0.2	–	–	8.0	–	–
Other ordinary shares issued	0.7	32.4	(42.9)	39.0	–	–
Share issue costs charged to share premium account or merger reserve	–	(1.0)	–	(2.4)	–	–
Share cancellations	(0.2)	–	–	–	0.2	(8.3)
Retained loss for the financial year	–	–	–	–	–	(94.8)
	115.7	836.6	195.7	2,905.3	91.7	52.0

Other reserves at 31 December 2002 comprise: currency translation deficit £37.2 million (2001: £37.2 million, 2000: £37.2 million), capital redemption reserve £1.5 million (2001: £1.3 million, 2000: £1.3 million) and capital reserve £127.4 million (2001: £127.4 million, 2000: £127.4 million).

At 31 December 2002 the Company's distributable reserves amounted to £52.0 million (2001: £153.4 million, 2000: £197.3 million). Further details of the Company's movements in share capital are shown in notes 24 and 25.

Reconciliation of movements in share owners' funds for the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
(Loss)/profit for the year	(932.3)	7.7	932.0
Ordinary dividends payable	(62.5)	(51.6)	(37.8)
	(994.8)	(43.9)	894.2
Ordinary shares issued in respect of acquisitions	8.2	64.7	2,960.8
Exercise of options granted on acquisition of Young & Rubicam Inc.	–	–	65.4
Other ordinary shares issued	29.2	82.7	44.2
Share issue costs charged to share premium account or merger reserve	(3.4)	–	–
Share cancellations	(8.3)	–	–
Net additions to equity share owners' funds	(969.1)	103.5	3,964.6
Opening equity share owners' funds	5,166.1	5,062.6	1,098.0
Closing equity share owners' funds	4,197.0	5,166.1	5,062.6

Reconciliation to US Accounting Principles (unaudited)

The following is an unaudited preliminary summary of the significant adjustments to net income and share owners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied.

An audited reconciliation of net income and share owners' funds measured under UK GAAP to US GAAP, including additional financial statement disclosures and further discussion of potential or actual differences that could apply, including presentational differences, will be included in the Company's Annual Report on Form 20-F to be filed with the Securities and Exchange Commission by 30 June 2003. The figures presented below are therefore subject to further change after the date of publication of the 2002 Annual Report and Accounts.

	For the year ended 31 December			
	Notes	2002 £m	2001 £m	2000 £m
Net income				
Profit attributable to ordinary share owners under UK GAAP		88.0	271.2	244.7
US GAAP adjustments:				
Reverse amortisation of goodwill	1	32.0	-	-
Amortisation of goodwill and other intangibles	1	(13.4)	(142.2)	(83.2)
Goodwill impairment	3	(25.7)	-	-
Executive compensation	1	(11.0)	(26.9)	(38.3)
Contingent consideration deemed as compensation	1	(49.7)	(23.1)	(8.6)
Accounting for derivatives	1	48.9	4.0	-
Pension accounting	1	(5.5)	-	-
Deferred tax items	1	(10.1)	(3.8)	8.3
		(34.5)	(192.0)	(121.8)
Net income as adjusted for US GAAP		53.5	79.2	122.9

Earnings per share

Basic earnings per share as adjusted for US GAAP (p)	2	4.8	7.2	14.7
Diluted earnings per share as adjusted for US GAAP (p)	2	4.7	7.1	14.1

A reconciliation from UK to US GAAP in respect of earnings per share is shown in note 2.

	Notes	As at 31 December		
		2002 £m	2001 £m	2000 £m
Share owners' funds				
Share owners' funds under UK GAAP		3,675.6	3,599.8	3,369.9
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	357.5	773.4	834.5
Revaluation of investments marked to market	1	-	(5.3)	34.4
Contingent consideration deemed as compensation	1	(81.4)	(31.7)	(8.6)
Shares owned by ESOP	1	(312.2)	(250.4)	(160.2)
Accounting for derivatives	1	52.9	4.0	-
Pension accounting	1	8.7	9.3	40.0
Deferred tax items	1	0.4	10.5	14.3
Proposed final ordinary dividend, not yet declared	1	42.5	35.2	28.5
Other		(3.2)	(3.4)	(3.7)
		65.2	541.6	779.2
Share owners' funds as adjusted for US GAAP		3,740.8	4,141.4	4,149.1

Movement in share owners' funds under US GAAP

	2002 £m	2001 £m	2000 £m
Net income for the year under US GAAP	53.5	79.2	122.9
Prior year final dividend	(35.2)	(28.5)	(16.2)
Current year interim dividend	(20.0)	(16.4)	(9.3)
Retained earnings for the year	(1.7)	34.3	97.4
Ordinary shares issued in respect of acquisitions	8.2	64.7	3,225.3
Share issue costs charged to merger reserve	(3.4)	(1.0)	(35.0)
Share options exercised	24.3	68.2	64.0
Share cancellations	(8.3)	-	-
Shares owned by ESOP	(61.8)	(90.2)	(88.9)
Revaluation of investments marked to market	5.3	(39.7)	(6.8)
Exchange adjustments:			
- Revaluation of goodwill	(408.6)	81.4	(31.8)
- Foreign currency translation	85.6	(80.6)	(133.0)
Pension accounting	(51.2)	(73.7)	-
Goodwill write-back	-	2.0	-
Executive compensation	11.0	26.9	38.3
New additions to share owners' funds	(400.6)	(7.7)	3,129.5
Share owners' funds at 1 January	4,141.4	4,149.1	1,019.6
Share owners' funds at 31 December	3,740.8	4,141.4	4,149.1

Notes to the Reconciliation to US Accounting Principles (unaudited)

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:

Long-lived assets

Goodwill and other intangibles

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 Financial Reporting Standard No. 10 (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 indefinite 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' funds, in accordance with the then preferred treatment under UK GAAP. Under US GAAP, for periods ending on or before 31 December 2001 goodwill was amortised on a straightline basis over the useful economic life, not to exceed 40 years.

The Group adopted SFAS 142 "Goodwill and other Intangible Assets" (SFAS 142) effective 1 January 2002. SFAS 142 directs that goodwill that has an indefinite useful life will not be amortised but rather will be tested annually for impairment. Intangible assets that have finite lives will continue to be amortised over their useful lives, but without constraint of an arbitrary ceiling. Going forward, the Group will carry out an annual impairment review of goodwill.

In 2002, an impairment charge of £25.7 million was recorded upon the adoption of SFAS 142.

The following analysis shows the impact on the Company's statement of operations of discontinuing goodwill amortisation had SFAS 142 been effective for all periods presented:

For the year ended 31 December	2002	2001	2000
Reported net income under US GAAP	53.5	79.2	122.9
Add back:			
Amortisation of goodwill and other indefinite-lived intangible assets	-	155.0	89.8
Tax benefit on goodwill amortisation	-	-	(1.0)
Adjusted net income under US GAAP	53.5	234.2	211.7

Basic earnings per share:

Reported earnings	4.8	7.2	14.7
Add back: goodwill amortisation, net of tax	-	14.1	10.7
Adjusted earnings	4.8	21.3	25.4

Diluted earnings per share:

Reported earnings	4.7	7.1	14.1
Add back: goodwill amortisation, net of tax	-	13.4	10.2
Adjusted earnings	4.7	20.5	24.3

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.

Under US GAAP, in accordance with the provisions of SFAS No. 141, Business Combinations (SFAS 141), the allocation of purchase consideration should include recognition of the fair value of identifiable intangible assets, as applicable, such as corporate brand and trade names, customer relationships and proprietary tools. As of 31 December 2002, the components of our intangible assets were as follows:

	As at 31 December 2002		As at 31 December 2001				
	Weighted average amortisation period	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m
Goodwill		5,220.8	(498.2)	4,722.6	5,645.7	(520.6)	5,125.1
Corporate brand names		775.0	(69.7)	705.3	775.0	(69.7)	705.3
Other intangible assets subject to amortisation:							
Trade names	10	20.8	(2.0)	18.8	16.5	(0.3)	16.2
Customer related	3	34.2	(10.8)	23.4	23.2	(1.3)	21.9
Purchased software and other proprietary tools	7	11.2	(4.6)	6.6	8.8	(2.2)	6.6
Total subject to amortisation	6	66.2	(17.4)	48.8	48.5	(3.8)	44.7

The estimated aggregate amortisation expense for each of the next five years is as follows: £16.1 million in 2003, £13.4 million in 2004, £4.6 million in 2005, £2.3 million in 2006 and £2.3 million in 2007.

Under UK GAAP, goodwill arising on acquisitions is calculated at the historical exchange rate when each transaction is initially accounted for, and is therefore not retranslated at the period end. Under US GAAP, goodwill is retranslated at the end of each period presented, resulting in foreign exchange translation loss of £408.6 million in 2002 (2001: gain of £81.4 million, 2000: loss of £31.8 million) being recognised in share owners' funds.

Tangible fixed assets

The Group evaluates the carrying value of its tangible fixed assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount, in accordance with the provisions of SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss would be 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.

1 Significant differences between UK and US Accounting Principles (continued)

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 2002, the Group's liabilities for vendor payments under UK GAAP totalled £237.8 million (2001: £288.2 million, 2000: £302.3 million). As these liabilities are represented by goodwill arising on acquisitions, there is no net effect on share owners' funds. In certain transactions the Group considers that there is a commercial need to tie in vendors to the businesses acquired; however the directors 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, except in rare instances, 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 was £8.45. This resulted in a purchase price which differed by £265 million and a corresponding difference in goodwill. The impact of this adjustment is reflected in goodwill amortisation through 31 December 2001.

Pension accounting

Under UK GAAP, pension costs are accounted for in accordance with FRS 17. Under US GAAP, pension costs are determined in accordance with the requirements of Statement of Financial Accounting Standards No 87, Employers' Accounting for Pensions (SFAS 87) and SFAS 88, Employers' Accounting and Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

The differences in accounting policy are primarily due to differing treatment of actuarial gains and losses which arise over the accounting period (as a result of investment returns and demographic assumptions differing from those previously assumed, and also the effect of changing actuarial assumptions). Under FRS 17, these actuarial gains and losses are immediately recognised in the Statement of Total Recognised Gains and Losses, whereas under SFAS 87 the actuarial gains and losses that at the beginning of the year exceed 10% of the greater of the value of the assets and the projected benefit obligation, are amortised over the future working lifetime of the scheme members.

Similarly, FRS 17 requires the cost of prior service costs to be expensed over the period in which the benefit vests, whereas SFAS 87 provides for these costs to be amortised over the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

Further, SFAS 87 requires the recognition of an additional liability to the extent that the liability in respect of any scheme does not cover the unfunded accumulated benefit obligation for that scheme.

The 2002 financial statements reflect a £5.5 million difference in the defined benefit pensions charge between UK GAAP and US GAAP. This is due to the fact that the Group's defined benefit schemes have recently experienced actuarial losses, primarily due to poor investment returns. The 2002 US GAAP charge therefore includes an amortisation component in respect of these losses, which is not reflected in the UK GAAP charge. In previous years, this amortisation component has not given rise to a material difference in the pensions charge. Additionally, the 2002 UK GAAP defined benefit pensions charge includes interest charges of £6.8 million (2001: £3.8 million, 2000: £1.4 million) that would be recognised as an operating expense under US GAAP.

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

Under UK GAAP, the Group accounts for deferred tax in accordance with FRS 19 (Deferred Tax) as described in the note on accounting policies in the financial statements. Under US GAAP, deferred taxes are accounted for on all temporary 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

UK and US GAAP accounting for stock-based remuneration differ in certain circumstances. The principal differences are:

Under UK GAAP, the part of executive compensation satisfied in stock is charged through the profit and loss account at the cost to the Group of acquiring the stock. 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 under US GAAP as the WPP ESOP 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 on a systematic basis over the vesting period.

Shares owned by Employee Share Ownership 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 ESOP comprises 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 permanent impairment. 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 listed investments of the Group are generally considered to be 'available for sale' securities under US GAAP.

Accounting for Derivative Instruments and Hedging Activities

Effective 1 January 2001, the Group adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes requirements for certain guarantees. It also requires (for guarantees issued after January 1, 2003) that a guarantor must recognise, at the inception of a guarantee, a liability for the fair value of the obligations undertaken. 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. The derivative financial instruments held by the Group are not designated and therefore do not qualify as accounting hedges resulting in the changes in the fair value of the derivative financial instruments being recognised in earnings.

Consolidated statement of cash flows

The consolidated statement of cash flows prepared under UK GAAP in accordance with FRS 1 presents substantially the same information as that required under US GAAP. Under US GAAP, however, there are certain differences from UK GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents. Cash flow under UK GAAP represents increases and decreases in cash, which comprises both cash in hand and overdrafts. Under US GAAP, cash flow represents increases or decreases in "cash and cash equivalents", which includes short-term, highly liquid investments with original maturities of less than 90 days, and excludes overdrafts.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends, management of liquid resources and financing activities. Under US GAAP, however, only three categories of cash flow activity are reported, being operating activities, investing activities and financing activities.

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. For the year ended 31 December 2002 both the \$287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. Had the convertible bonds been dilutive to earnings in 2002, incremental shares attributable to the assumed conversion of the bonds would have increased diluted shares outstanding by 58.2 million shares. In addition, options to purchase 19.8 million ordinary shares were outstanding at 31 December 2002 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the shares and, therefore, the effect would be antidilutive. For the year ended 31 December 2001 the \$287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million. The calculation of the weighted average number differs for UK and US GAAP purposes as follows:

	Basic earnings per share No.	Diluted earnings per share No.
Year ended 31 December 2002		
Under UK GAAP	1,110,556,878	1,136,548,459
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2002	–	–
Under US GAAP	1,110,556,878	1,136,548,459
Year ended 31 December 2001		
Under UK GAAP	1,101,937,750	1,157,080,255
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2001	–	2,047,943
Under US GAAP	1,101,937,750	1,159,128,198
Year ended 31 December 2000		
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

3 Implementation of SFAS 142

In June 2001, the FASB issued SFAS 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after 15 December 2001. SFAS 142 changed the accounting for goodwill from an amortisation method to an impairment-only approach. Thus, amortisation of goodwill, including goodwill recorded in past business combinations and amortisation of intangible assets with an indefinite life, ceased upon adoption of SFAS 142. For any acquisitions completed after 30 June 2001, goodwill and intangible assets with an indefinite life are not amortised. The Company adopted the provisions of SFAS 142 in full effective 1 January 2002.

The Company recognised an impairment loss of £25.7 million on the implementation of SFAS 142. Under UK GAAP, all such impaired goodwill had been included in the write-off against share owners' funds as of 1 January 1998, as more fully described in the note on accounting policies in the financial statements.

The subsequent annual test for impairment was performed as of the end of the year and an impairment loss of £145.7 million was recognised under UK GAAP and US GAAP. The impairment charge relates to a number of under-performing businesses in the Information, insight & consultancy, and Branding and identity, Healthcare and Specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill.

4 New US GAAP Accounting Pronouncements

The Group has considered the following recent US GAAP accounting pronouncements for their potential impact on our results of operations and financial position:

In June 2002, SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146) was issued. SFAS 146 requires that costs associated with exit or disposal activities, including restructuring charges, be recognised and measured initially at fair value only when the liability is incurred, and is effective for any such activities initiated after 31 December 2002. It has no effect on charges recorded for exit activities begun prior to this date. The Group does not expect that adoption of SFAS 146 will have a material impact on its consolidated results of operations or financial position.

In November 2002, Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45) was issued. This interpretation elaborates on the existing disclosure accounting and reporting standards under US GAAP 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 application of FIN 45 did not result in additional disclosure in our 2002 financial statements and is not expected to have a material impact on our consolidated results of operations or financial position.

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148), was issued as an amendment of SFAS 123. The Group has elected to continue with its current practice of applying the recognition and measurement principles of APB 25 under US GAAP and has adopted the disclosure requirements of SFAS 148.

In January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities", an interpretation of ARB 51. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. It requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. It also requires certain disclosures by the primary beneficiary of a variable interest entity and by an enterprise that holds significant variable interests in a variable interest entity where the enterprise is not the primary beneficiary. FIN 46 is effective immediately to variable interest entities created after 31 January 2003 and to variable interest entities in which an enterprise obtains an interest after that date, and effective for the first fiscal year or interim period beginning after 15 June 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before 1 February 2003. FIN 46 requires an entity to disclose certain information regarding a variable interest entity, if when the Interpretation becomes effective, it is reasonably possible that an enterprise will consolidate or have to disclose information about that variable interest entity, regardless of the date on which the variable entity interest was created. The Group does not expect that when FIN 46 becomes effective that it will have to consolidate or disclose any information regarding variable interests.

The Emerging Issues Task Force ("EITF") of the FASB also released interpretive guidance covering several topics that impact our business. These topics include customer relationship intangible assets acquired (EITF 02-17) and vendor rebates (EITF 02-16). The application of this guidance did not have a material impact on our consolidated results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is applied prospectively and is effective for contracts entered into or modified after 30 June 2003, except for SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to 15 June 2003 and certain provisions relating to forward purchases and sales on securities that do not yet exist. The Company has not determined the effect, if any, that SFAS No. 149 will have on its consolidated financial statements.

Five-year summary

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Profit and loss					
Turnover (gross billings)	18,028.7	20,886.9	13,949.4	9,345.9	8,000.1
Revenue	3,908.3	4,021.7	2,980.7	2,172.6	1,918.4
Operating profit	272.5	505.5	379.4	265.0	229.1
Profit on ordinary activities before taxation	205.4	411.0	365.7	255.4	212.8
PBT ¹	400.6	493.6	382.2	256.9	212.8
Profit attributable to ordinary share owners	88.0	271.2	244.7	172.8	140.3
Balance sheet					
Fixed assets	6,363.0	6,376.2	5,389.0	1,313.9	942.9
Net current liabilities	(524.3)	(782.4)	(529.4)	(227.5)	(239.7)
Creditors: amounts falling due after more than one year	(1,837.5)	(1,711.5)	(1,279.6)	(652.5)	(401.5)
Provisions for liabilities and charges (including pension provision)	(286.8)	(241.4)	(185.9)	(92.2)	(77.9)
Net assets	3,714.4	3,640.9	3,394.1	341.7	223.8
Net (debt)/funds	(722.7)	(885.1)	(24.6)	91.9	134.3
Average net debt	(1,343.0)	(834.0)	(423.0)	(206.0)	(143.0)
	2002	2001	2000	1999	1998
Our people					
Revenue per employee (£000)	77.5	79.7	82.4	78.4	75.0
Gross profit per employee (£000)	73.2	75.1	75.7	67.0	63.8
Operating profit per employee (£000)	5.4	10.0	10.5	9.6	9.0
Average headcount	50,417	50,487	36,157	27,711	25,589
Share information					
Headline ² – basic earnings per ordinary share	25.5p	32.1p	31.3p	23.1p	19.1p
– diluted earnings per ordinary share	24.9p	30.9p	30.3p	22.7p	18.8p
Standard – basic earnings per ordinary share	7.9p	24.6p	29.3p	22.9p	19.1p
– diluted earnings per ordinary share	7.7p	23.7p	28.4p	22.5p	18.8p
Dividends per share	5.40p	4.50p	3.75p	3.10p	2.56p
Share price – high	811p	889p	1,324p	996p	470p
– low	391p	460p	693p	359p	200p
Market capitalisation at year-end (£m)	5,491.5	8,736.8	9,631.2	7,598.3	2,803.8

Notes

¹ PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of PBT is set out in note 28.

² Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

The information on this page is unaudited.

Unaudited consolidated profit and loss account: euro illustration

For the year ended 31 December 2002

	2002 €m	2001 €m	2000 €m
Turnover (gross billings)	28,683.7	33,598.7	22,916.1
Cost of sales	(22,465.6)	(27,129.4)	(18,019.4)
Revenue	6,218.1	6,469.3	4,896.7
Direct costs	(347.2)	(373.2)	(401.8)
Gross profit	5,870.9	6,096.1	4,494.9
Operating costs excluding goodwill amortisation and impairment	(5,154.7)	(5,259.2)	(3,846.8)
Goodwill amortisation and impairment	(282.7)	(23.8)	(24.8)
Operating profit	433.5	813.1	623.3
Income from associates	47.7	65.6	62.4
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	481.2	878.7	685.7
Profit on disposal of fixed assets	14.6	10.9	-
Amounts written off fixed asset investments	(31.7)	(113.9)	-
Net interest payable and similar charges on net borrowings	(126.6)	(108.6)	(82.6)
Net interest charges on defined benefit pension schemes	(10.8)	(6.1)	(2.3)
Net interest payable and similar charges	(137.4)	(114.7)	(84.9)
Profit on ordinary activities before taxation	326.7	661.0	600.8
Taxation on profit on ordinary activities	(164.5)	(202.8)	(180.2)
Profit on ordinary activities after taxation	162.2	458.2	420.6
Minority interests	(22.3)	(22.0)	(18.6)
Profit attributable to ordinary share owners	139.9	436.2	402.0
Ordinary dividends	(99.4)	(83.0)	(62.1)
Retained profit for the year transferred to reserves	40.5	353.2	339.9
PBIT ¹	764.0	902.5	710.5
PBIT ¹ margin	12.3%	14.0%	14.5%
PBT ¹	637.3	793.9	627.9
Headline earnings per share²			
Basic earnings per ordinary share	40.6¢	51.6¢	51.4¢
Diluted earnings per ordinary share	39.6¢	49.7¢	49.8¢
Standard earnings per share			
Basic earnings per ordinary share	12.6¢	39.6¢	48.1¢
Diluted earnings per ordinary share	12.3¢	38.1¢	46.7¢

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 (2002: €1.5910 = £1, 2001: €1.6086 = £1, 2000: €1.6428 = £1) and the rate in effect on 31 December for the balance sheet (2002: €1.5345 = £1, 2001: €1.6322 = £1, 2000: €1.5912 = £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.

Notes

¹ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of PBIT and PBT is set out in note 28.

² Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

Unaudited consolidated balance sheet: euro illustration

As at 31 December 2002

	2002 €m	2001 €m	2000 €m
Fixed assets			
Intangible assets:			
Corporate brands	1,457.8	1,550.6	1,511.6
Goodwill	6,762.5	7,246.8	5,565.0
Tangible assets	579.0	706.4	620.9
Investments	964.7	903.4	877.5
	9,764.0	10,407.2	8,575.0
Current assets			
Stocks and work in progress	447.5	386.7	383.6
Debtors	3,462.4	3,903.9	3,470.4
Trade debtors within working capital facility:			
Gross debts	591.9	540.3	739.7
Non-returnable proceeds	(333.6)	(134.7)	(368.5)
	258.3	405.6	371.2
Current asset investments (short-term bank and escrow deposits)	292.2	125.4	–
Cash at bank and in hand	1,057.4	955.8	1,698.8
	5,517.8	5,777.4	5,924.0
Creditors: amounts falling due within one year	(6,322.3)	(7,054.4)	(6,766.4)
Net current liabilities	(804.5)	(1,277.0)	(842.4)
Total assets less current liabilities	8,959.5	9,130.2	7,732.6
Creditors: amounts falling due after more than one year (including convertible bonds)	(2,819.7)	(2,793.5)	(2,036.1)
Provisions for liabilities and charges	(156.5)	(173.2)	(156.2)
Net assets excluding pension provision	5,983.3	6,163.5	5,540.3
Pension provision	(283.6)	(220.8)	(139.6)
Net assets including pension provision	5,699.7	5,942.7	5,400.7
Capital and reserves			
Called up share capital	177.5	187.7	176.9
Share premium account	1,283.8	1,314.2	1,128.2
Shares to be issued	300.3	389.4	615.3
Merger reserve	4,402.9	4,610.5	4,185.2
Other reserves	(390.2)	(549.6)	(407.7)
Profit and loss account	(134.1)	(76.6)	(335.7)
Equity share owners' funds	5,640.2	5,875.6	5,362.2
Minority interests	59.5	67.1	38.5
Total capital employed	5,699.7	5,942.7	5,400.7

Unaudited consolidated profit and loss account: to present the impact of US transitional guidelines on the expensing of share options, for illustrative purposes only

For the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
Turnover (gross billings)	18,028.7	20,886.9	13,949.4
Cost of sales	(14,120.4)	(16,865.2)	(10,968.7)
Revenue	3,908.3	4,021.7	2,980.7
Direct costs	(218.2)	(232.0)	(244.6)
Gross profit	3,690.1	3,789.7	2,736.1
Operating costs excluding goodwill amortisation and impairment	(3,239.9)	(3,269.4)	(2,341.6)
Fair value of share options ³	(5.0)	–	–
Goodwill amortisation and impairment	(177.7)	(14.8)	(15.1)
Operating profit	267.5	505.5	379.4
Income from associates	30.0	40.8	38.0
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	297.5	546.3	417.4
Profit on disposal of fixed assets	9.2	6.8	–
Amounts written off fixed asset investments	(19.9)	(70.8)	–
Net interest payable and similar charges on net borrowings	(79.6)	(67.5)	(50.3)
Net interest charges on defined benefit pension schemes	(6.8)	(3.8)	(1.4)
Net interest payable and similar charges	(86.4)	(71.3)	(51.7)
Profit on ordinary activities before taxation	200.4	411.0	365.7
Taxation on profit on ordinary activities	(102.7)	(126.1)	(109.7)
Profit on ordinary activities after taxation	97.7	284.9	256.0
Minority interests	(14.0)	(13.7)	(11.3)
Profit attributable to ordinary share owners	83.7	271.2	244.7
Ordinary dividends	(62.5)	(51.6)	(37.8)
Retained profit for the year transferred to reserves	21.2	219.6	206.9
PBIT ¹	475.2	561.1	432.5
PBIT ¹ margin	12.2%	14.0%	14.5%
PBT ¹	395.6	493.6	382.2
Headline earnings per share²			
Basic earnings per ordinary share	25.1p	32.1p	31.3p
Diluted earnings per ordinary share	24.5p	30.9p	30.3p
Standard earnings per share			
Basic earnings per ordinary share	7.5p	24.6p	29.3p
Diluted earnings per ordinary share	7.4p	23.7p	28.4p
Headline earnings per ADR^{2,4}			
Basic earnings per ADR	\$1.89	\$2.31	\$2.38
Diluted earnings per ADR	\$1.84	\$2.22	\$2.30
Standard earnings per ADR⁴			
Basic earnings per ADR	\$0.56	\$1.77	\$2.22
Diluted earnings per ADR	\$0.56	\$1.71	\$2.15

Notes

¹ PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of PBIT and PBT is set out in note 28.

² Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

³ Expensing of share options is consistent with current US transitional guidelines under the prospective adoption method contained within SFAS No.148, Accounting for Stock-Based Compensation-Transition and Disclosure.

⁴ These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 107. This conversion 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.

Independent auditors' report

Independent auditors' report to the members of WPP Group plc

We have audited the financial statements of WPP Group plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities in the Directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable UK law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant UK legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with UK 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 and the part of the directors' remuneration report described as having been audited. 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 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

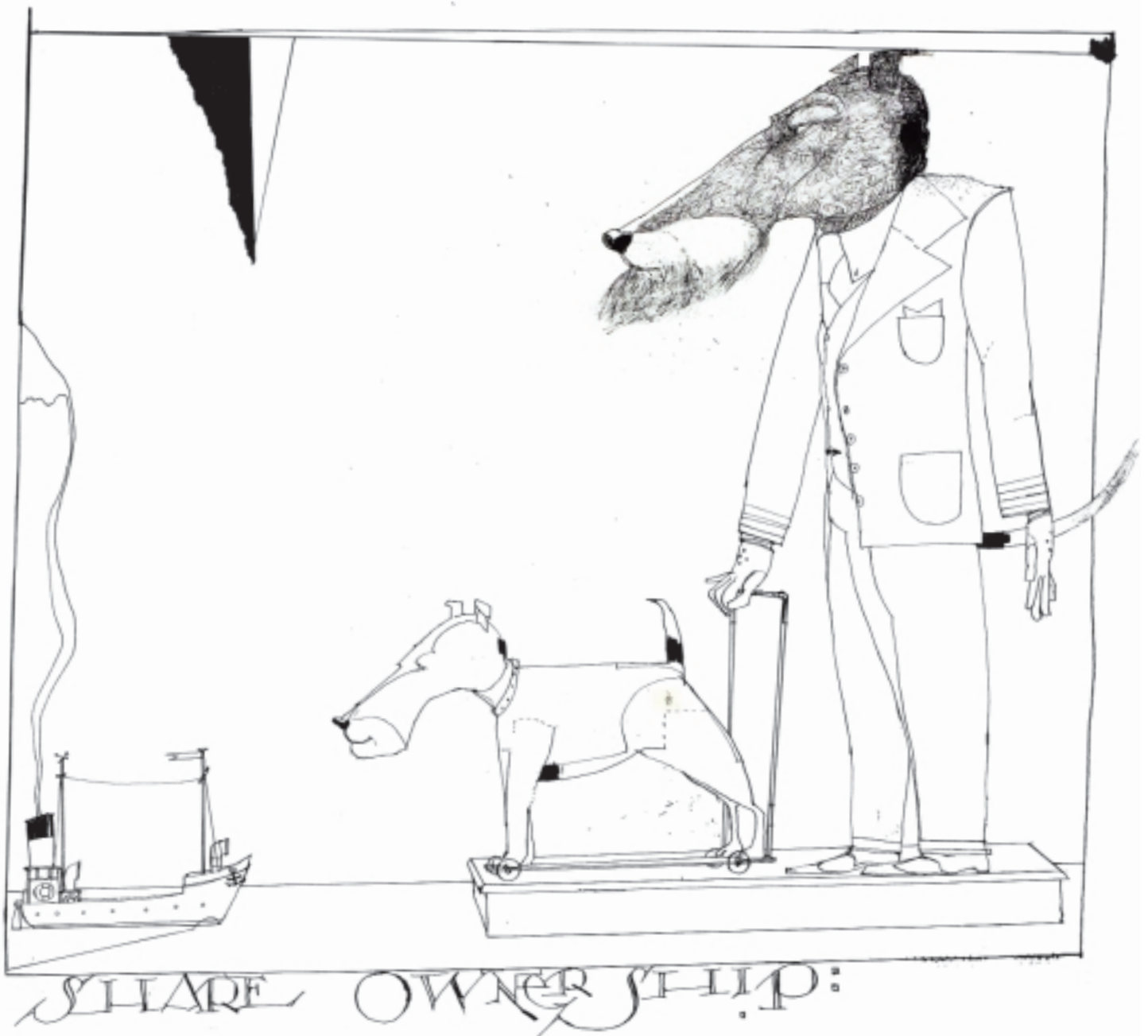
16 May 2003

Financial glossary

Term used in annual report	US equivalent or brief description
Allotted	Issued
ADRs/ADSs	American Depositary Receipts/American Depositary Shares. The Group uses ADR and ADS interchangeably
Average net debt	Average net debt is calculated as the average daily net bank borrowings of the Group, derived from the Group's automated banking system. Net debt at a period end is calculated as the sum of the net bank borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet
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
Constant currency	The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying 2002 exchange rates to local currency reported results for the current and prior year. This gives a US dollar-denominated income statement and balance sheet which excludes any variances attributable to foreign exchange rate movements
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
ESOP	Employee share ownership plan
EURIBOR	The euro area inter-bank offered rate for the euro
Finance lease	Capital lease
Free cash flow	Free cash flow is calculated as PBIT (see below) before equity income and depreciation (including dividends received from associates, proceeds from the issue of shares, and proceeds from disposal of tangible fixed assets and investments), less tax paid, returns on investments and servicing of finance and the purchase of tangible fixed assets
Freehold	Ownership with absolute rights in perpetuity
FRS	Financial reporting standard in the UK
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
Higgs Report	Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors
LIBOR	The London inter-bank offered rate
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
PBIT	Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs
PBT	Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes
Profit attributable to ordinary share owners	Net income

Term used in annual report	US equivalent or brief description
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
Proforma ('like for like')	Proforma comparisons are calculated as follows: current year actual results (which include acquisitions from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions for the commensurate period in the prior year. The Group uses 'proforma' and 'like for like' interchangeably
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
Sarbanes-Oxley Act	An Act passed in the US to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes
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
Short leasehold	A short lease is where the portion of the term remaining unexpired at the end of the financial year is less than 50 years
Smith Report	Report in the UK by Sir Robert Smith on the role of audit committees
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

About share ownership



Share owners' register

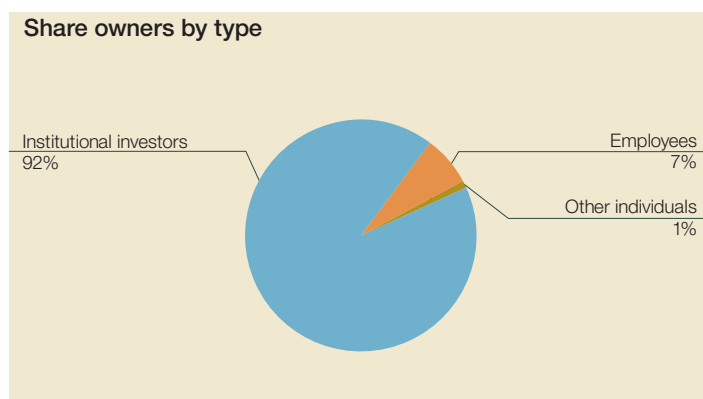
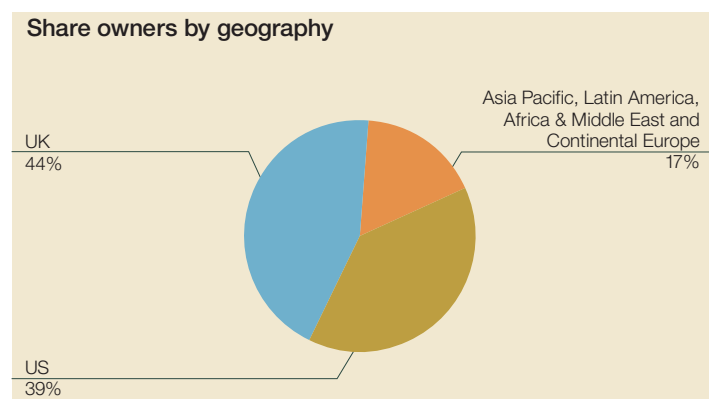
A register of share owners' interests is kept at the Company's head office and is available for inspection on request. The register includes information on nominee accounts and their beneficial owners.

Analysis of shareholdings at 31 December 2002

Issued share capital as at 31 December 2002: 1,157,325,640 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	1,291	11.42	79,453	0.01
101 – 250	1,481	13.11	278,720	0.02
251 – 500	2,130	18.86	812,250	0.07
501 – 1,000	2,177	19.28	1,682,587	0.15
1,001 – 5,000	2,370	20.99	5,366,921	0.46
5,001 – 10,000	368	3.26	2,687,280	0.23
10,001 – 25,000	414	3.67	6,694,389	0.58
25,001 – 50,000	249	2.21	9,095,974	0.79
50,001 – 100,000	202	1.79	14,591,696	1.26
100,001 – 500,000	351	3.11	82,326,713	7.11
500,001 – 1,000,000	91	0.81	61,444,581	5.31
1,000,001 – 2,000,000	74	0.66	103,237,993	8.92
2,000,001 – 3,000,000	29	0.26	69,218,329	5.98
3,000,001 – 4,000,000	16	0.14	55,406,937	4.79
4,000,001 and above	48	0.43	744,401,817	64.32
Total	11,291	100	1,157,325,640	100

Share owners by geography	%	Share owners by type	%
UK	44	Institutional investors	92
US	39	Employees	7
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	17	Other individuals	1
Total	100	Total	100



Dividends

Ordinary share owners have received the following dividends in respect of each financial year:

	2002	2001	2000	1999	1998
Interim dividend per ordinary share	1.73p	1.44p	1.20p	1.00p	0.84p
Final (2002 proposed) dividend per ordinary share	3.67p	3.06p	2.55p	2.10p	1.72p
Total	5.40p	4.50p	3.75p	3.10p	2.56p

American Depositary Receipts (ADRs)

Each ADR represents five 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 depository. Dividends on ADRs that are registered with brokers are sent to the brokers, who forward them to ADR holders. WPP's US depository is Citibank N.A. (address on page 139). Dividends per ADR, including UK tax refunds but before US tax credits, in respect of each financial year are set out below.

	2002	2001	2000	1999	1998 ²
In £ sterling					
Interim	8.65p	7.20p	6.00p	5.00p	4.20p
Final (2002 proposed)	18.35p	15.30p	12.75p	10.50p	8.60p
Total	27.00p	22.50p	18.75p	15.50p	12.80p
In US dollars¹					
Interim	13.00¢	10.40¢	9.10¢	8.10¢	6.95¢
Final (2002 proposed)	27.60¢	22.00¢	19.30¢	17.00¢	14.25¢
Total	40.60¢	32.40¢	28.40¢	25.10¢	21.20¢

Notes

¹ These figures have been translated for convenience purposes only, using the profit and loss exchange rate shown on page 107. This conversion 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.

² These amounts have been restated to reflect the current value of one ADR to five ordinary shares (prior to 16 November 1999 one ADR represented 10 ordinary shares).

For dividends paid on or after 6 April 1999, and up to 30 April 2003, 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.

Due to the ratification of the new UK:US treaty, for dividends paid on or after 1 May 2003 no withholding tax will be imposed on dividends paid to ADR holders and there will no longer be any entitlement to offset any part of the UK taxation credit against any US taxation liability. The dividend received (without any gross up for withholding tax suffered or tax credits) will be subject to US taxation.

Individuals may elect for a period of 12 months to be subject to the old UK:US taxation treaty, as set out above. Whether this is beneficial will depend on individual circumstances and therefore shareholders are advised to consult their professional advisors.

Financial calendar

- The 2002 final dividend will be paid on 7 July 2003 to share owners on the register at 6 June 2003.
- 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:

	2002	2001	2000
Ordinary 10p shares	474.5p	760.0p	872.0p

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 0906 843 4544; calls charged at 60p per minute at all times).

Access numbers

	NASDAQ	Reuters 2000	Topic
Ordinary shares		WPPL.L	52945
American Depositary Shares	WPPGY		

www.wppinvestor.com

This public website, created specifically for WPP's share owners and the worldwide financial community, contains a comprehensive menu of current and historical financial information, news releases, trading reports and share price information.

Registrar and transfer office

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PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

American Depositary Receipts (ADRs)

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5th Floor
New York
NY 10043

WPP registered office

Pennypot Industrial Estate
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Kent CT21 6PE
The Company's registered number is 1003653.

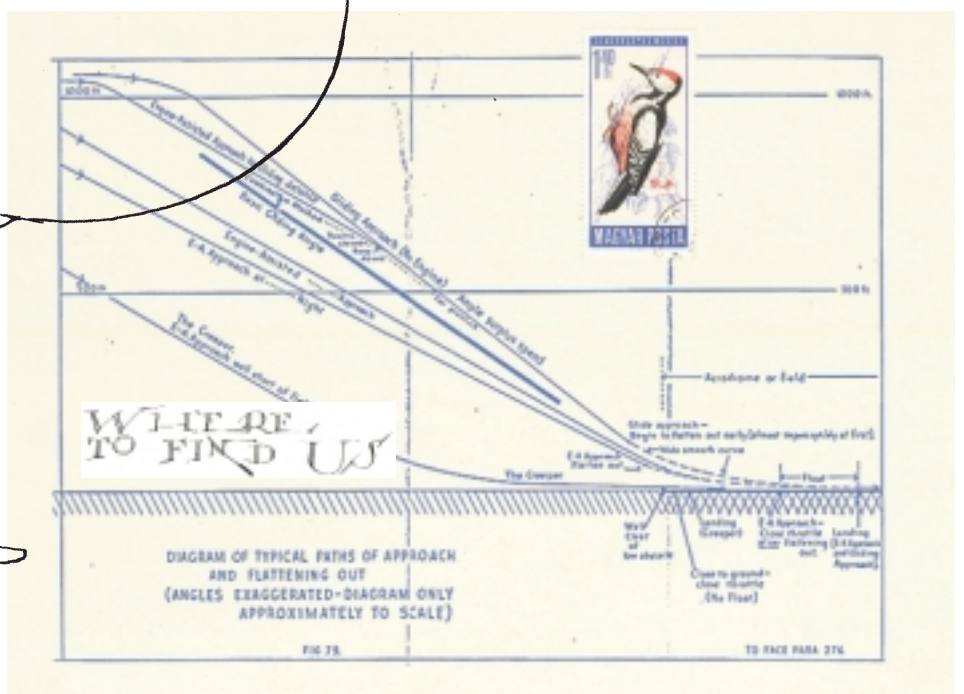
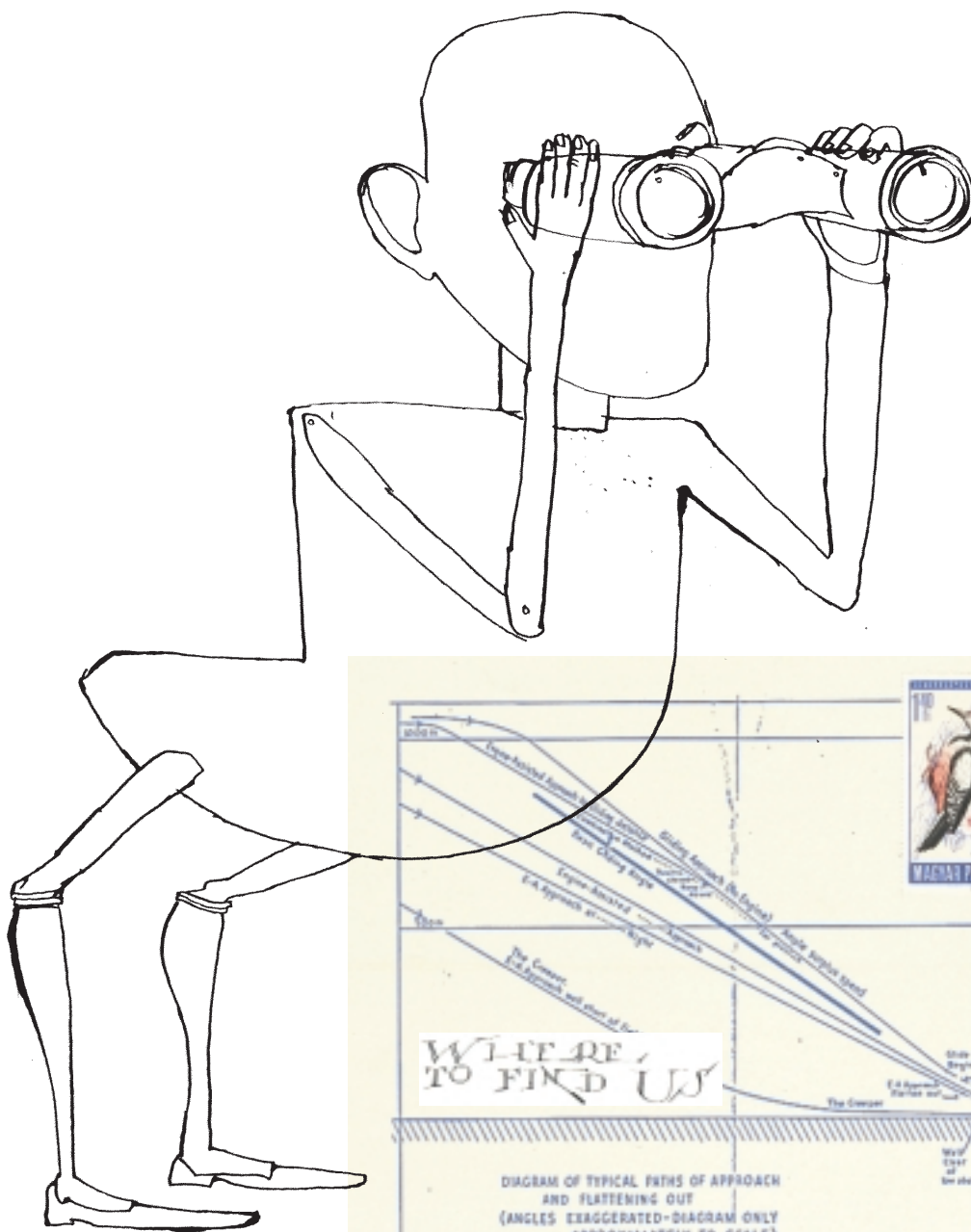
Tax information**Reclaiming income tax on dividends**

For dividends paid on or after 6 April 1999, the tax credit available to individual share owners resident in the UK is reduced to one-ninth 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 taxpayers with 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 advisors. ■

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Group information

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e.wire, our monthly online bulletin providing a round-up of news from around the WPP world, is automatically delivered to subscribers' e-mail addresses. Register to receive **e.wire** at www.wpp.com

Recognition for previous WPP Annual Reports

2000 Annual Report received a ProShare Commendation for best Annual Report for private investors in a FTSE 100 Company.

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 for private investors 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 for private investors in a FTSE 100 Company.

WPP

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