Operating and financial review

Competitive performance

There is still significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies, such as Omnicom, achieve 15-16% operating margins, whilst the best-performing individual agencies such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of as much as 20%. This compares to a WPP Group margin of 14% and reported combined margins of the Ogilvy & Mather Worldwide, J. Walter Thompson Company and Y&R Advertising brands of over 17%.

Historically, listed public relations companies showed operating margins of over 10%, which have been more than matched by our own operations. Despite the difficult trading conditions in 2001, operating management has indicated that margin performance can be improved above those competitive levels again.

The results of our research into comparative benchmarking data on our Information & consultancy and Branding & identity, Healthcare and Specialist communications operations confirm that our businesses in these areas are competitive, although there are still opportunities to improve performance to the level of the best-performing competitors.

One of the Group's most important objectives is to increase its rate of organic revenue growth which is a key measure of the success of its value-added strategy. Excluding acquisitions, this was approximately 15% in 2000, a rate of growth that, although delightful, was clearly unsustainable in the long term, as 2001 proved.

Geographic performance

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. This sharp downturn affected the US most significantly, but also impacted Europe, Asia Pacific and Latin America. Despite the gloomy trading conditions, the Group believes it increased its worldwide market share.

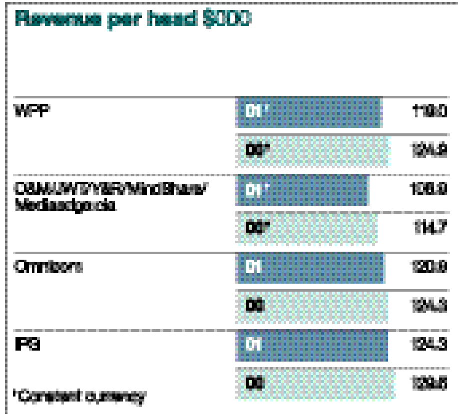
North America bore the brunt of the recession with the UK, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East less affected.

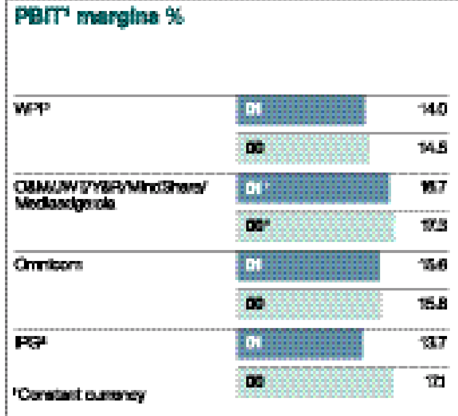
Sector performance

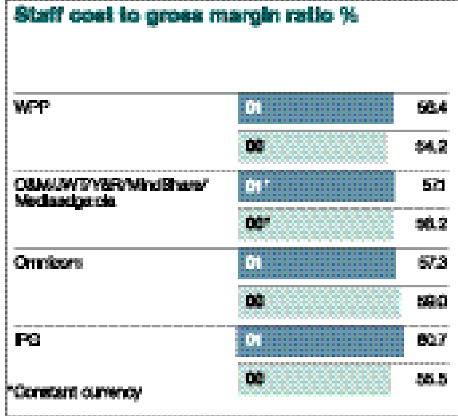
Worldwide economic conditions are likely to remain difficult in 2002. A V-shaped recovery seems unlikely, despite the level of stock market valuations. W-shaped and L-shaped recoveries seem unlikely too, given government and central bank monetary and fiscal policies. What seems most likely is a bath-shaped or saucer-shaped recovery where the upturn is gradual. 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.

On the following pages the heads of our 12 operating brands summarise their operational activities and highlights for 2001.

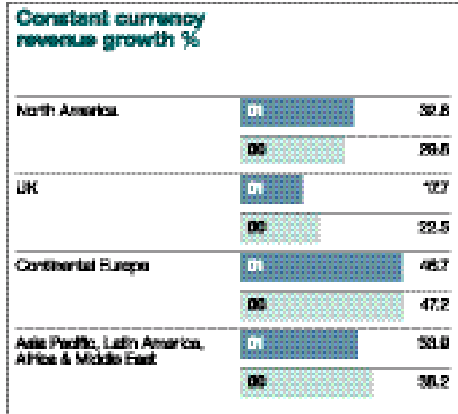
Competitive performance

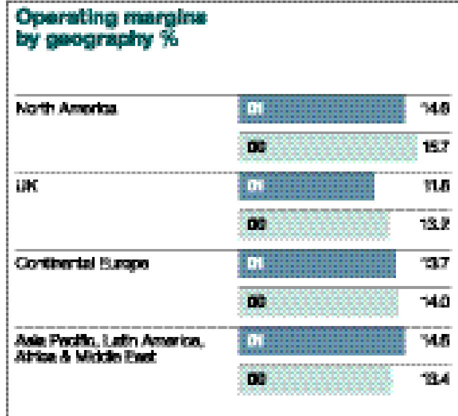


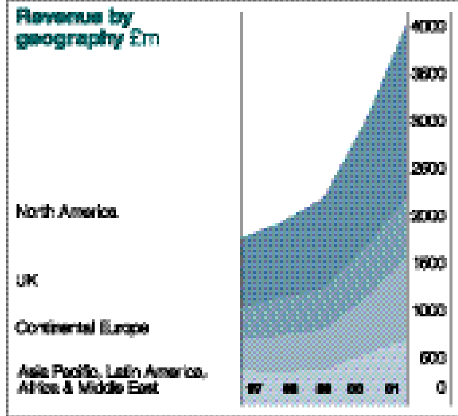




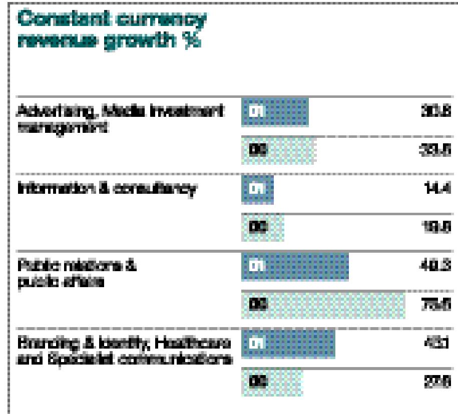
Geographic performance

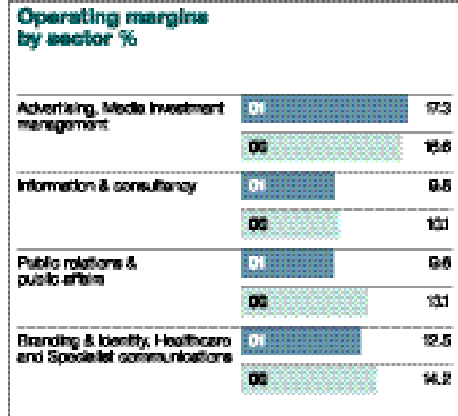


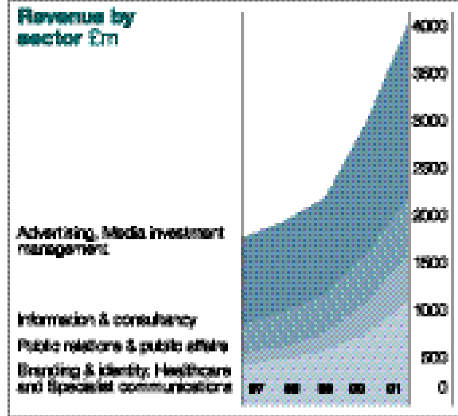




Sector performance

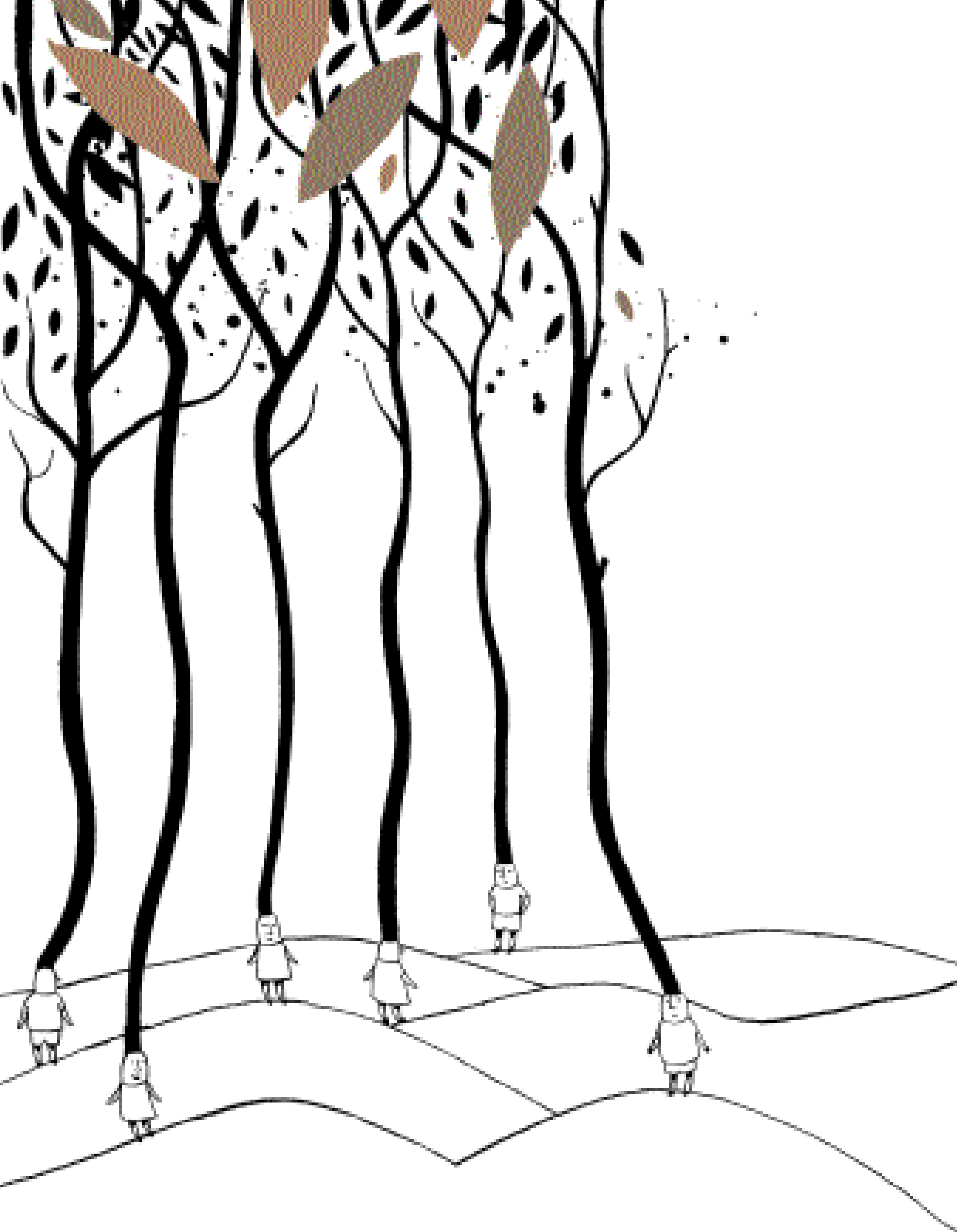






[1] PBIT: Profit on ordinary activities before interest and taxation, excluding goodwill charges, investment gains and write-downs.

[2] Interpublic PBIT margin for 2001 as presented above excludes restructuring and merger-related costs of $645.6m and, for 2000, excludes restructuring and merger costs of $116.1m and Deutsch transaction costs of $44.7m.



Reports from our operating brands

Advertising and Media investment management

This sector's revenue grew 31% last year, primarily driven by acquisitions. On a pro-forma combined basis, revenue at Ogilvy & Mather Worldwide (which was again named the US Agency of the Year by *Advertising Age*, and which includes Cole & Weber and OgilvyOne), J. Walter Thompson Company (named Eastern Agency of the Year by *Adweek*), Y&R Advertising, Red Cell, MindShare (named European Media Agency of the Year by *Media & Marketing Europe*) and Mediaedge:cia (the new brand name for the merged operations of The Media Edge and CIA) were flat. The combined operating margin of this group of companies was over 17%.

In 2001, Ogilvy & Mather Worldwide generated net new billings of £237 million ($367 million), J. Walter Thompson Company £243 million ($377 million) and Y&R Advertising £96 million ($149 million). Red Cell has been strengthened significantly by the addition of new talent and the acquisition of Berlin Cameron & Partners in the US.

Also in 2001, MindShare and Mediaedge:cia generated net new billings of £563 million ($873 million). Plans continue to be developed to form a worldwide 'WPP Media' parent company. This follows the merger of Tempus Group's CIA with the Media Edge and the subsequent formation of Mediaedge:cia, resulting in the development of a strong sister global Media investment management brand.

Our digital operations suffered as clients reduced their spending on digital media campaigns, with consequent adjustments in revenue and people. However, the quality of our operations in Europe will be enhanced with the integration of Outrider, Tempus' digital operation.

Ogilvy & Mather Worldwide

Much has been learned this year. We learned about impossible horror and great heroism. We learned, painfully, that becoming a global community will be neither easy nor without controversy.

Not all the lessons were harsh. At Ogilvy, we learned that our company is indeed the family we have long thought ourselves to be. The outreach to our New York headquarters from colleagues around the world following September 11 was profound and deeply felt. Ultimately it confirmed our private belief: that what we do for a living, as wonderful as it is, is not what ultimately binds us. It is our humanity, our shared values, our hope for the future, and our belief in that future.

In every annual report, from every marketing communication company, you will read how tough this year has been. We were not immune at Ogilvy; but we were amazingly resilient.

Coming off huge 20% revenue gains in 2000, we grew by a small percentage. Still, any growth at all in 2001 should be considered an achievement. We once again improved our operating margin, one of our most important financial objectives. This was the result of a quick and resolute effort to reduce costs and hold tight financial reins. Most importantly, for the tenth year running, and despite the deep revenue constriction, we met our budget commitments.

In many ways, this was a very successful year for Ogilvy. We had new business gains of over $800 million. We won important new brands such as AT&T Wireless and The Coca-Cola Company. We won back all of Ford in Europe – and gained major assignments from many of our key global clients including Nestlé, Kraft, IBM and Telefónica. We launched highly successful global campaigns for IBM, Kimberly-Clark, SAP, and BP. We picked up more than 700 creative awards – in some cases dominating whole shows, regions, and even categories. We expanded our *360 Degree Brand Stewardship*℠ offering with new business initiatives and key acquisitions. In fact, we trace every single success commercially and creatively to that strategy. The outside world took note. *Ad Age* magazine squarely cited this successful strategy as a key rationale in naming us their US Agency of the Year… an honor which I believe reflects on the whole of the network.

This was not luck. This was the year we reaped the rewards of investments and business plans laid in place years before; and of a marketplace that has completely embraced the vision of brands and branding that we have been developing and evolving as our business practice for nearly a decade now.

The truth is these tough times have brought a post-dotcom return to business fundamentals – of profit and loss, financial discipline, and of course, brands. This plays to our strengths. Our clients know *360 Degree Brand Stewardship*℠ is not just a philosophical ideal, or a new business pitch. They know it's a promise to work as dedicated brand partners – no matter what it takes.

If you go back to Ogilvy's long-declared goal – To Be Most Valued by Those Who Most Value Brands – and you use that as the measure of success, then 2001 has been an excellent year. The formula for success next year is elegantly simple – more of the same; execution is everything. We will deliver.

Shelly Lazarus

Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

J. Walter Thompson Company

J. Walter Thompson turned a year of challenges – recession coupled with the tragedy of terrorism – into one of achievement. We made progress in difficult times staying true to our 138-year legacy of helping to launch, sustain, renew and reinvent great brands for many of the world's premier marketers. In fact, *Adweek* magazine named us "Agency of the Year" for the US East Coast, citing our vitality, agility and dedication to our clients.

JWT added $660 million in new business worldwide. We welcomed new blue-chip clients including Pharmacia/Pfizer, with the assignment of its leading Celebrex drug; Unilever's Best Foods and the Texaco retail brand from Shell. We continued to put a premium on growth from existing clients and we were entrusted with significant assignments from Diageo/UDV, Ford, Kimberly-Clark, KPMG, Kraft, Nabisco, Nestlé and Rolex. We began 2002 with the $150 million Domino's Pizza and Häagen-Dazs US wins.

People are the lifeblood of a creative enterprise and we appointed a superb group of highly talented professionals to key posts in every discipline, notably new Executive Creative Directors in New York, Chicago, San Francisco, Toronto and the European region. Two accomplished new Regional Presidents were named: Bob Jeffrey in North America and Kevin Ramsey in Asia Pacific.

Our company made creativity – the development and delivery of great business-building ideas across all communications channels – a top priority. We put in place a new creative architecture: the Worldwide Creative Council and Regional Creative Leagues to tap the expertise of our best creative leaders. This effort to raise our standards has raised our creative profile as our Cannes, Effie, Clio and many regional and national awards attest.

We advanced another key priority: to enhance our delivery of integrated marketing solutions for our clients with the launch of Synergy@jwt in North America. The mission of this new division is to spearhead the growth of our specialized communications brands and provide "best in class" service offerings in the direct, database and digital marketing disciplines. This synergistic approach to developing highly creative, effective brand messages that resonate in every medium has the potential to become a formidable competitive advantage for our company in the years ahead.

Two of our marketing services companies remained on the leading edge in their disciplines. digital@jwt, our full-service interactive and digital brand marketing arm, achieved significant growth, delivered award-winning work and extended its global reach. JWT Specialized Communications, our recruitment and employee communications firm, an industry leader, continued its expansion worldwide.

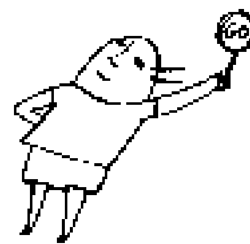
JWT emerged from 2001 in the top tier of global advertising brands, both in network strength and breadth. Worldwide billings rose to $11 billion. Our global network now spans 90 countries, serving a balanced mix of multinational, regional and local accounts.

Today, JWT is a more entrepreneurial, creative and competitive total communications company. We have the resources, the reach and the resolve to fuel our growth as the recovery begins in earnest.

I would like to salute the 10,000 people of J. Walter Thompson for their single-minded focus on great ideas that build relationships between brands and consumers. It is their will to win which will ensure that our company's best days lie ahead.

Peter Schweitzer

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



Young & Rubicam Inc.

2001 marked Young & Rubicam Inc.'s first full year as a member of WPP. It was a significant year in many ways, and one in which we made great progress in recasting ourselves for the future.

Shared clients and a shared sense of purpose made our integration into the WPP network a successful proposition, even though it was, by definition, a time of great change. We already felt the benefits of the larger network, working with some of the WPP companies to deliver integrated communications programs to our clients. In the future, Y&R will continue to pursue more of these opportunities.

The downturn in the economy, of course, was a recurring theme throughout our industry. Y&R organized itself to minimize the impact of tightening client budgets. As is usually the case, some of our disciplines were harder hit than others. Importantly, although we did not achieve the major growth with some of our clients that we might have expected in better times, it is significant that our key accounts continued to support their commitment to communications programs against worsening economic forecasts.

As we melded our operations into WPP, we continued to work on creating an environment in which integrated communications can really function and flourish. Our Y&R Advertising and Wunderman operations have renewed attention on finding the most productive and creative ways to collaborate. With many shared accounts and such complementary disciplines, building a working alliance should be of tremendous help to our clients.

To this end, we integrated the leadership of Dentsu Young & Rubicam and Wunderman in the Asia Pacific region so that our clients will get the best of both brands. We will continue to look for opportunities to place our resources side by side. Indeed, the global leadership of Y&R Advertising and Wunderman are now housed in the same location, which will ensure that the integrity of each brand will not be compromised as we develop mechanisms to collaborate more effectively and creatively in the future.

2001 proved a challenging year for Y&R Advertising, the largest division of the company. In October, after Ed Vick retired from Y&R, I took on the additional role of Chairman and CEO of Y&R Advertising. It is a commitment I have made for the long term and am actively driving a return to basics at the agency – making sure that we are all engaged in working closely and directly with our clients to develop creative and effective advertising that leverages their business and brands.

This reinvigorated process was responsible for some important and substantial growth of business with existing clients, including AT&T, Colgate and Ford. In a year that demanded change, there was also strong forward motion in our agencies around the world.

We strengthened management in the US and Europe significantly, both by putting strong Y&R veterans in new roles and recruiting some terrific new talent. We acquired SicolaMartin, a full-service agency specializing in marketing, consulting and advertising for leading technology companies. With the steps we have taken, it is already becoming clear that Y&R Advertising is changing, improving and positioned for a stronger future.

The Bravo Group, a division of Y&R Advertising, continued to be the leading Hispanic marketer in the US. Revenue growth was in the double digits. Bravo opened a new office in Irvine, California, bringing their total number of offices to five (New York, Chicago, Miami, San Francisco and Irvine). New business wins included Sears, Lincoln-Mercury, Pfizer, Jim Beam and Kraft.

Michael Dolan
Chairman and chief executive officer
Young & Rubicam Inc.

The Media Edge, Y&R's media planning and buying division, made an important strategic merger with CIA, the media communications specialist of Tempus Group, to form Mediaedge:cia. The company has immense strength in every region globally and combined billings of more than $17 billion. This new configuration will be of tremendous value to our clients and, once again, underscores the immense opportunities presented by our merger with WPP.

In 2001, Wunderman, formerly Impiric, returned to its original name and its direct marketing heritage. This move reaffirmed the company's commitment to sound, fundamental marketing principles as well as to its heritage of innovation. Daniel Morel joined the agency at the beginning of the year as Chairman and CEO. Significant expansion came from existing accounts, including Sony Ericsson, Sears and Citibank. New business came from IBM, Lufthansa, Jaguar and, on the media and interactive front, Register.com, 1-800-Flowers, Land Rover Interactive as well as AICPA.

Data continued to be the fuel of the Wunderman engine. In 2001, Wunderman's KnowledgeBase Marketing subsidiary launched *Impact*, a fully integrated web-enabled CRM solution. Best-in-class strategic analytics from Kestenbaum Consulting, which turns data-based customer insights into profitable marketing solutions, was rolled out to the network and is already in use by several clients.

As often in the past, the Public relations & public affairs sector felt the pressures of recessionary times more than any other sector. Burson-Marsteller and Cohn & Wolfe were most adversely affected. Robinson Lerer & Montgomery, in its first full year under Y&R, turned in excellent results in this tough environment, delivering high quality strategic communications work to its corporate clients that span a wide range of industries. Burson-Marsteller scored some major new business wins, including Texas Public Utilities, Peregrine, Sony and SAP, more than offsetting the loss of Sun Microsystems. Here, too, growth with top clients continued. At Cohn & Wolfe new business came from ADP, Taco Bell, M&M/Mars, Aventis, Lego and Pfizer. The agency acquired the largest independent PR firm in Texas, Springbok Technologies.

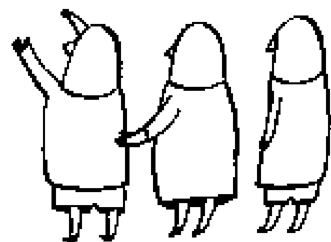
Although 2001 was a difficult year for the industry, Landor Associates gained market share. Major programs were launched for H&R Block, Merck, Altria, FedEx, Morgan Stanley, RWE, Charles Schwab and Hewlett-Packard. New clients included Wrigley's, Guinness UDV, Belgacom, Pfizer, AstraZeneca, Lego, Disney and Malaysia Airlines. In addition, Landor's London office was named "Design Agency of the Year" by *Marketing* magazine.

Another bright spot in the Y&R network was Sudler & Hennessey, which celebrated its sixtieth anniversary with another year of solid growth. A slower performance in North America was offset by strong performances in both Europe and Asia. S&H expanded its geographic reach with new offices in Shanghai and Hong Kong and its product and service offerings with new medical, education, consumer, publishing, consulting and interactive units in New York, Paris, Munich, Tokyo and Frankfurt. Global new business wins included work for J&J/Cordis, Biogen, Gilead, EMD Pharmaceuticals and Roche.

Our outlook for the future, despite the challenging environment, remains bright. We continue to strengthen our operations and our offerings. We are more flexible, more creative and more interconnected than ever before. Individually, our partner companies are working hard to keep themselves at the cutting edge of their individual disciplines.

Together, we are finding new ways to help our clients reach their customers through integrated communications solutions. We are beginning to see the positive results of our change and growth. And have every reason to believe that we will leverage our strengths in 2002.

Michael Dolan



Red Cell

WPP's fourth network, Red Cell, has the enormous advantage of being new.

David Ogilvy called 'new' "the most powerful word in advertising." With good reason: the appeal of newness comes from the optimistic faith that we've truly learned from what's gone before; that we're free to make changes that make sense without upsetting the apple cart, and that we've turned our learning into something better; something exciting.

With 21 offices worldwide (and growing), Red Cell's mission is filling the considerable gap between the traditional networks and a handful of craft-driven creative agencies that approach global coverage one market at a time. We are the first unique alternative to appear in the last decade.

Even in our first year, Red Cell moved much faster than its creative competitors via acquisition, and operated leaner than its conventional network competition through the application of proprietary new practices and technologies.

Red Cell's most aggressive accomplishment of 2001 was the acquisition of a New York-based agency with a first-rate worldwide creative and strategic reputation – Berlin Cameron & Partners, now Berlin Cameron/Red Cell. The Berlin Cameron acquisition in December brings with it important, relationships with major US-based clients including The Coca-Cola Company, Nestlé/Ralston, New York Life, the National Basketball Association, Acirca and *Advertising Age*.

At the same time, WPP gave the network new leadership with the appointment of Andy Berlin and Lee Daley as Red Cell's Co-CEOs.

Lee, one of the founders of Amster Yard, had most recently been Chief Strategic Officer for McCann-Erickson's European operations and Andy, one of the founders of Goodby, Berlin & Silverstein, had been (and remains) Chairman of Berlin Cameron.

The quality and depth of Red Cell's strategic and creative abilities have been improved substantially in 2001 throughout many parts of the network and a vigorous program of standards and practices is being implemented at this time.

Despite the impact of the general business downturn, Red Cell made use of 2001 to prepare and strengthen its position for rapid growth as a unique and powerful competitor on the world stage, combining the appeal of its new approach with the resources of WPP.

Red Cell looks forward to major accomplishments and growth in 2002 and 2003 in Asia, India, the UK, Europe and Western markets.

Andy Berlin
Lee Daley

Andy Berlin
Co-chief executive officer
Red Cell

Lee Daley
Co-chief executive officer
Red Cell

MindShare

With economic and political uncertainty weighing heavily on the consciousness of most of the world, 2001 was a difficult year for all components of the media landscape: our clients, our media-vendor community, and, of course, ourselves. Meanwhile, consolidation among communications services companies continued with the creation of an elite group of global players on the agency side, mirroring the consolidation that is ongoing among clients and media suppliers.

In this unsettled business climate, MindShare achieved global new business wins of over $1 billion while improving profitability. Now in our fifth year as a multinational network, we are approaching our two-year anniversary as a truly global entity. MindShare is a relatively mature player in the competitive field with 2001 billings of over $20 billion, 72 offices in 52 countries and a staff of more than 3,400 media professionals. In the few years that we have been operating, we have developed a distinct and strong MindShare culture. Our consistency in practice and approach to media solutions provides clients with a trusted global partner everywhere they need us. Like all excellent service companies in consolidating sectors, we recognize that it is our people and our clients who really make the difference.

The broad appeal of our capabilities is reflected in the new client assignments awarded in 2001: Bristol-Myers in the US, the Castrol and ARCO brands from BP on a global basis, Kraft assignments in Europe and Asia, and Twentieth Century Fox wins in Canada. Last year was also when we felt the positive impact of being selected for Unilever's first US consolidated communications channel management assignment. Importantly, the foundation work for a number of key new client assignments was also built in 2001, and these efforts have already borne fruit in 2002.

MindShare is a media investment management firm. This approach sets us apart from the media specialists owned by competitive holding companies. We apply proprietary research and econometrics to deliver critical insights into both a company's competitive landscape and consumers' media consumption habits to form the core of our offering. These insights are translated into strategies and tactics, which are then executed to deliver higher ROI for our clients' media investment.

MindShare has also worked aggressively to fully develop extended core capabilities from content and programming to cross-media and marketing-alliance deals with the world's largest media companies. Last year, we spearheaded several cross-platform deals with some of the world's largest media companies on behalf of major global clients.

Operationally, MindShare took significant steps to expand and initiate new offerings in the area of research and consulting. The ATG Group (Advanced Techniques Group), a unit within MindShare that applies econometrics and marketing sciences techniques to help clients develop business strategies and to better enable them to maximize the value of their media investments, made excellent headway in codifying its global offering. In addition to representing a critical part of our overall client offer, ATG is developing a consulting business in its own right.

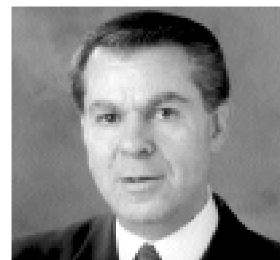
Through its "MindShare Consumer Insight" group, MindShare has extended its proprietary "3D" research into 11 new countries. This research brings together a measurement of Brand Equity, social behavior and media consumption into one single source. MindShare has also launched "Snapshots of Youth," a proprietary qualitative study among youth aged 16-19 in Tokyo, Shanghai, Hong Kong, Sydney, Mexico City, Paris, Berlin, Milan, Madrid, London and the US.

We have continued to expand into new markets. We opened 16 new offices within the US, India, Mexico, South Africa, Sri Lanka and Bangladesh. And our existing offices have been recognized for excellence. Significantly, we were named Media Agency of the Year by *Media & Marketing Europe* which noted "MindShare has convinced the judges that strong buying power can be combined with great strategic thinking."

Despite signs of recovery in the US economy in 2002, this year promises to present challenges. And opportunities. Our competitive context continues to become more complex as consolidation continues on the media-agency side. We are also the beneficiaries of this trend, and are in a position to take advantage of the extended resources, and incremental leverage afforded us through our relationship with our sister firm Mediaedge:cia. This dimension ensures that we will remain within the elite tier of media agencies as it relates to the ever important aspects of volume and leverage.

At the same time, many of our key media suppliers are expanding from their base "content and distribution business" into a "communications (cable and telephony) infrastructure." This incremental consolidation is taking place on a global scale and provides us with significant opportunity to identify and exploit media and marketing synergies for our large global clients. We are confident that MindShare's unique media investment management approach, combined with its analytics, strategy development and vast negotiating power, will ideally position us to exploit the potential opportunities in the media landscape.

Irwin Gotlieb
Dominic Proctor


Irwin Gotlieb
Chairman and chief executive officer
MindShare

Dominic Proctor
Chief operating officer
MindShare

Mediaedge:cia

2001 saw the creation of Mediaedge:cia following the acquisition of Tempus Group and the subsequent merger of The Media Edge and CIA in November. This was a positive and healthy outcome for our clients and staff and it came at the end of a difficult year for our industry, affected by the economic downturn and the effects of September 11.

Despite these factors, we are able to report satisfactory results for 2001, and a good new business record for the year. Prior to the merger, CIA wins included Singapore Airlines and Amaretto di Saronno at a global level, H3G in Italy, Xfera in Spain, Siemens in Germany, Six Continents Hotels in Asia and Canon and Hennes & Mauritz in EMEA. It was a special year for CIA as it was voted Asian Media Agency of the Year, just before celebrating its twenty-fifth anniversary globally in association with *TIME* magazine and *Advertising Age*. The Media Edge added, amongst others, Pizza Hut, KFC and Jaguar in the US, Singtel in Singapore, and COI Communications in the UK, to its client list. Our expectations for the new Mediaedge:cia brand are even higher and, to date, have been realistic. We won $350m of new business in January 2002 alone, including international accounts Sony Ericsson and Damovo, ForeninsSparbanken and Scania in Sweden, Pillsbury in Spain, the PepsiCo business in Russia, and additional business for Pentland across EMEA.

In future we are confident that the recent merger of our two media communications specialists has given us the added advantage of size, resource and especially talent. With billings of $16 billion, 4,000 people working in 186 companies in 80 countries across the globe, the newly-formed company is one of the five largest media communications specialists in the world, and we now look forward to further growth.

The combination of the two companies gives us genuine global strength. We now have a greater presence in the US and in Asia Pacific, strength in Latin America (where CIA was previously absent), and a reinforced position in the EMEA markets – we are also market leader in a number of markets and are already beginning to enjoy the benefits of a truly global approach. The merger has given us more opportunity to accelerate our expansion in terms of skills and market coverage, and Mediaedge:cia's geographically-balanced network now enables us to develop, manage and implement national, regional and global communications and media solutions for the benefit of our clients.

In terms of management, Charles Courtier and Mainardo de Nardis, based in the New York and London Headquarters respectively, run the group as a partnership. As in every merger, during the first few months we have focused on developing our new organisation for the future, and we are happy to report that this is now all in place.

Key to our unique offer is MediaLab, our Communication R&D Division, which co-ordinates all research and product development across the group, and OHAL, possibly the largest econometric and modelling specialist in the world. We are also proud of the achievements of 36T, our Total Communications expertise unit which, whilst still relatively small, is providing a model for all offices. This is an important strategic area that is crucial to our development from a media communications agency into a genuine channel-neutral communications planning and implementation specialist.

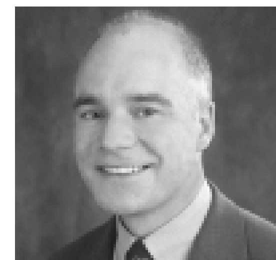
Mediaedge:cia digital services, Outrider and The Digital Edge, which connect brands and consumers across all digital platforms, have also merged. They specialise in creating e-marketing initiatives which deliver return on investment and brand enhancement for a broad range of direct and group clients and work with Mediaedge:cia to produce fully-integrated on- and offline communication solutions.

As part of WPP, we continue to partner the Y&R group of companies with whom we still share many clients. We also benefit from synergies and opportunities within the Group through the emergent worldwide 'WPP Media' parent company, our joint approach to this fast-consolidating market alongside our sister company, MindShare, which gives us access to further resources, expertise, power and leverage for the benefit of all our clients.

Our ambition for the future is to become the first truly global practitioners of insightful and accountable communications planning and implementation. We aim to provide communications solutions that are channel and discipline neutral and to create powerful connections that engage consumers with brands and influence their behaviour. Our objective is to make a sustainable and measurable contribution to the success of our clients' brands.

These ambitions support our claim, "Well Connected," as we try to optimise the connections across our company and WPP, harnessing all the available talent to enhance the work we do for our clients and, in particular, connections with consumers.

Charles Courtier
Mainardo de Nardis


Charles Courtier
Executive chairman
Mediaedge:cia

Mainardo de Nardis
Chief executive officer
Mediaedge:cia

Despite the recession, the Group's Information & consultancy businesses continued their strong growth with gross profit rising by over 14% and operating margins up over the previous year, although September 11 did have a discernible impact. Particularly strong performances were recorded by Millward Brown in Canada, Spain, France, China, Singapore, Brazil and Mexico; by Research International in the US, the UK, Italy, Australia, New Zealand, South-East Asia and Mexico; by Center Partners; and by Goldfarb Consultants in Mexico.

Technology and interactive research revenue declined during the first nine months of the year but stabilised in the last quarter. This was evidenced by the stabilisation at MB IntelliQuest and a pick-up in activity at Lightspeed, our interactive panel.

The Kantar Group

The robust growth which our sector experienced through the 1990s slowed dramatically in 2001 to 4-5% globally, about half the long run rate, as clients deferred or delayed research spending. Within the overall slowdown, we found the previously fast growing technology and automotive sectors were, not surprisingly, particularly hard hit, and interestingly the traditional packaged goods spenders whose share of market research had been declining, held up best.

Consolidation of our industry continued apace. In media research, we acquired JFC, a French-based media research software company, and Mediafax, which specializes in television audience measurement. Millward Brown acquired Impact, specializing in branding and advertising research in South Africa and strengthened its Italian presence with the acquisition of Delpho. Pharmaceutical research is one of the fastest growing sectors of market research and we acquired New York-based Ziment Associates, a specialist in this arena.

Interactive research growth slowed to around 50% year-on-year; this failure to fulfill some pundits extreme growth forecasts offering an interesting insight into the key drivers of our industry. "Faster, Cheaper, Better" is the promise of the internet for research. "Faster," well yes, usually. "Cheaper" though has driven many companies on the supply side of the industry into financial problems as they have failed to develop a sustainable business pricing model. "Better" has largely not been delivered due to a failure of imagination and inspiration as traditional telephone or face-to-face questionnaires have merely transferred to the internet without unlocking the interactive power of the new technology. And the lesson? It is that speed and cheapness alone are not competitive advantages unless linked with intellect and insight. Market research flourishes when smart, enquiring minds find interesting ways of using technological advances; insight at speed will help our clients develop competitive brands and services, cheaper data will not.

David Jenkins
Chief executive officer
The Kantar Group

Research International, the world's largest custom market research company, continued its move towards handling its client base more on an agency model of fewer, larger clients awarding bigger, longer-term contracts. The creation of Key Account Directors in 2000 began to bear fruit in 2001 with some large-scale wins, some of them gratifyingly against management consultancies attempting to encroach into our area. RI made particularly strong progress in the UK, US, and Asia.

Millward Brown made good progress in most of its mainstream companies but was particularly hard hit by the problems of its technology clients in the US. Strong performances were turned in by its Asian, Latin American, UK and Continental European operations where start-up Eastern European companies exceeded expectations. Sadly, Millward Brown lost Tony Wheeler, CEO of its Australian and Japanese operations and a leading figure in Australian market research, who passed away after a short illness.

We merged Kantar Media Research and Millward Brown midway through last year as we decided to use the power of MB's international office infrastructure as a more effective way to develop our media research interests. The integration of the hitherto separate units within Kantar opens up interesting new product development opportunities.

Goldfarb Consultants, our Toronto headquartered company, developed well outside its automotive business though this latter specialization was clearly hard hit by the auto industry problems.

Our Indian company, IMRB, had another strong year both domestically and in its West Asia expansion.

The Ziment company brings to Kantar specialists in ethical pharmaceutical research and we are working to expand its reach beyond the US to serve the needs of major drug companies in their major locations.

Our Lightspeed internet panel developed last year with the creation of specialty panels, eg teens and healthcare, and expanded in Europe.

Last, but not least, Center Partners, our 1999 entry into outsourced call handling, saw a year of explosive growth in 2001, exceeding all expectations as it won major long-term contracts and radically increased its capacity through new site openings.

Overall, we navigated our way through a truly horrible year and although we have no illusions that 2002 will be easy, our companies are now structured and ready to help our clients as they emerge from recession.

David Jenkins

Public relations & public affairs

In constant currencies, the Group's Public relations & public affairs revenue showed continued growth, due to acquisitions as well as the inclusion of Y&R for the entire year, rising by over 49%.

However, this sector was most affected by the worldwide recession, particularly in technology, media and telecommunications. On a pro-forma combined basis, although Hill and Knowlton's revenue rose in 2001, Burson-Marsteller, Ogilvy Public Relations Worldwide and Cohn & Wolfe suffered significant revenue declines. Robinson Lerer & Montgomery, however, continued to make a strong contribution to the Group.

As a result, operating margins at our Public relations & public affairs businesses as a whole declined to over 9% against being over 13% in the previous year.

Hill and Knowlton

Despite the worldwide economic slowdown, Hill and Knowlton more than held its own in an intensely competitive and contracting environment for public relations services, as evidenced by its selection to receive the prestigious *Holmes Report's* "Agency of the Year 2001" award. Effectively managing the bottom line, the company was nonetheless disappointed to have eight consecutive years of margin improvement interrupted. H&K's sound reputation and its depth and complexity of expertise continued to make it the agency of choice by top global companies. Anxious in difficult times, clients solicited H&K's consulting counsel, particularly in the corporate arena.

Revenue growth – with notable jumps in two distinct areas: an increase in multi-country assignments and a year-over-year increase by the top 10 clients of the agency – was concentrated in corporate work, marketing, crisis, social marketing and public affairs. The company continued to expand major client relationships and was involved in some of the seminal stories in business around the world. Winning substantial new business assignments and long-term contracts during the year, H&K was proud to count Ford Motor Company, Motorola, and Aventis as clients.

Responding to client and business needs, H&K continued to maximize its matrix structure, emphasizing practice development and geographic presence. The firm expanded its worldwide network to 66 offices in 35 countries by acquiring operations in Lisbon and Paris and opening a new Berlin office. Several new services and offerings were developed to enhance client strategic objectives: HKShareholder Response (Canada), Digital PR (Italy), media communications practice (US), and RADAR, a digital intelligence platform for managing external and internal information sources.

With a new global practice head in place, the healthcare practice experienced good growth, serving worldwide pharmaceutical companies, hospitals, managed-care organizations, and professional associations. The life sciences division extended H&K's reach into the biotechnology, biopharmaceutical, and devices and diagnostics sectors. Practice clients include Abbott, AstraZeneca, Pfizer, P&G, and Ortho Biotech.

As clients demanded increased research and intelligence tools from their agencies, H&K's library of proprietary publications and surveys on issues, news and trends continued to expand. These include *Corporate Seeds* (Brussels), *Highlights* (Amsterdam), *X-Ray* (global marketing) *CoolHunters* (global marketing) *Fusion* (London) and *Bite-Sized* (London). Additionally, the firm expanded its annual *Corporate Reputation Watch* survey of 1,000 global CEOs beyond the US to include Canada and six European countries. Widely recognized and anticipated, the CRW survey augments the firm's credentials on reputation issues to senior management.

Notwithstanding the bumpy terrain, the online phenomenon continued its relentless march with an increase in total internet population. The customer move to online was reflected in client requirements for fully integrated on- and offline communications – "normal.communications." Assignments ranged from webcasts to mobile marketing to online media relations. Additionally, while the dotcom and IT sectors suffered during the year, the technology practice continued to represent market leaders in consumer technology, enterprise software, systems and networking companies including TiVo, BT and Interwoven, and Compaq.

Further evidence of retaining strength and position in the marketplace were the number of awards garnered by the agency in 2001. Notable in frequency are the work in social marketing, corporate and arts and entertainment. Awards include Gold SABRE, *PR Week*, PRSA PRisms, Targhe D'Argento and an Emmy.

Despite an overall industry workforce reduction, the firm was able to retain and hire top talent. H&K was the only strategic communications firm in Canada to make the *Top 100 Employers* list, including a "Top 10 employer" rating for women. In the US, employees ranked H&K high among top agencies.

Howard Paster

Howard Paster
Chairman and chief executive officer
Hill and Knowlton Worldwide

Ogilvy Public Relations Worldwide

With a severe economic downturn hitting the technology sector first in 2001, and then spreading across both industries and geographies, 2001 was a year of retrenchment, restructure and, ultimately, regeneration.

With growth difficult to achieve, we set about redefining our business, building for the future and intensifying the commitment to excellence in client service in everything we do.

Seeking to increase our strength in both local social marketing programs and public affairs in the US, we started the year with the January acquisition of Deen & Black, California's leading public affairs firm working on a number of state social education initiatives.

Additional expansion efforts were focused outside the US and worked to great effect. We added five separate firms in Australia to collectively make us the largest PR entity in the continent – Howorth Communications, Parker & Partners, savage & horrigan, Ethnic Communications and Impact Employee Communication.

In Paris, we acquired AKKA, a full-service firm with a specialty in corporate and financial PR, as part of an ongoing effort to strengthen our European network.

We entered the Middle East marketplace with a headquarters office in Dubai and eight satellite offices throughout the region, including Egypt, Jordan and Morocco.

And we become the first major international network to establish a presence in Vietnam, the region's second most populous country.

At the close of the year, more than one-third of our business was conducted outside the US, the largest percentage in our firm's history.

As the dotcom boom turned to bust, we refocused our technology business on the big players, as evidenced by several key strategic wins. We won a first piece of Sun Microsystems business in April, and three months later were awarded the biggest piece of the pie, the Sun Systems business. This immediately made Sun Ogilvy PR's largest single client for 2001. We also won the European account management business from Dell Computers to help define the strategy and oversee the execution of all their European activities, and Sony Europe's 15-country campaign to support their B2B offerings.

Two key strategies, expanding our predominantly tech markets – Atlanta, Denver and San Francisco – into more fully rounded offerings, and playing to the Ogilvy traditional strength in brand marketing combined nicely together as evidenced by the addition of Target and Coca-Cola's Gift of Reading Program in Atlanta, and both Orange Glo and Celestial Seasonings in Denver.

Excellence in corporate work was evidenced by both the return of Deloitte Touche Tohmatsu to our roster and our global work for Intelsat, a leading international satellite company, that became a private corporation after 37 years as an inter-governmental organization.

And as corporations tightened their budgets, we pursued and won a variety of US government health education programs including the NIH's 3-Year HIV Vaccine Communications program and a three-year effort for media relations support of CDC that includes assisting their anti-terrorism efforts.

With the additions of Johnson & Johnson and Abbott to our portfolio, we end 2001 working for each of the 10 largest pharmaceutical companies in our network. We won J&J business on multiple fronts, working for Ortho Biotech, Ortho McNeil and Ethicon. In fact, what started as one cancer product within Ortho Biotech quickly turned to three. We also strengthened our position in the OTC side of the healthcare arena, with the expansion of our Pfizer business to include Listerine and the addition of Bausch and Lomb for their ocular vitamins.

Our entertainment practice, BWR, secured a third consecutive Oscar victory in 2002, with Jennifer Connelly's Best Supporting Actress win. Best Actress nominee, Renee Zellweger, was also on BWR's roster. This followed the success of another talent client, Benecio del Toro, in 2001 and a victory the previous year with client Hilary Swank.

We ended the year working out a new brand definition and vision to take us forward for 2002. The new vision keeps our senior staff closely tied to clients, focuses our business areas only on those industries where we can supply true added value and brings brand concerns into everything we do. The way we say it, we hope, says it all: Global Resources. Boutique Approach. Brand Solutions.

We enter 2002, smarter, sleeker, stronger and focused on what lies ahead.

Bob Seltzer

Bob Seltzer
Chairman and chief executive officer
Ogilvy Public Relations Worldwide

Branding & identity, Healthcare and Specialist communications

The Group's Branding & identity, Healthcare and Specialist communications revenue grew by 43% last year, again primarily due to acquisitions. Including Y&R, on a pro-forma combined basis, revenue and gross profit rose by almost 1% and operating costs by over 6%, resulting in overall operating margins declining by almost one margin point, chiefly due to margin erosion at some of our Branding & identity and Specialist communications units.

Even as some of the specialist businesses reflected the overall softness in the market, others were very strong. WPP's long history and experience with specialist firms has also helped to further evolve our understanding of three distinctly different and strategic ways these units further the Group's mission:

- Through coordination and combination they become significant businesses in their own right – such as CommonHealth, Enterprise IG and The Brand Union, which now rank first in their respective sectors.
- By collaborating with the larger advertising or PR networks they fill gaps in integrated marketing or 360 degree branding.
- As start-ups or acquisitions in new or embryonic fields, they serve as a pipeline of capabilities that become significant in the future as client needs change.

Some of the noteworthy events, initiatives and achievements in 2001 are summarised below.

CommonHealth

CommonHealth, the world's leading healthcare communications network, had an exceptional year – led by growth of both its traditional business units as well as success with a number of its newer ventures.

CommonHealth companies handle health-related brands in almost every therapeutic category, from professional and consumer advertising, to relationship marketing, physician-patient communication and medical education. Through alliances with sister WPP companies, we also offer clients even more specialised expertise in public relations, brand identity and design, experiential and ethnic marketing – all of which have grown in importance to prescription pharmaceutical companies. Our global capabilities are uniquely delivered through a partnership with the Ogilvy Healthcare Network, a joint venture which has expanded to 13 offices in nine countries. Additionally, in 2001 CommonHealth ventured into the contract sales arena through a unique partnership with PDI, a leading provider of outsourced sales and marketing solutions for pharma and biotech companies.

Demonstrating remarkable breadth and industry penetration, CommonHealth now works with nine of the top 10 pharmaceutical companies in the US, having added major new assignments from Pfizer, GlaxoSmithKline, Aventis-Boehring, Sanofi-Synthelabo and Novartis. While continuing to help build billion-dollar brands like Avandia (GlaxoSmithKline), Listerine (Pfizer), Procrit (Ortho Biotech/J&J), and the Claritin/Clarinex franchise (Schering-Plough) – the majority of which employ multiple capabilities within the CommonHealth network – in 2001 CommonHealth companies participated in the launch or re-launch of 10 pharmaceutical brands, and is poised to take part in 14 additional launches in 2002.

CommonHealth continued to leverage new technologies in 2001, adding extensive digital creative and media capabilities; a digital asset management system; client service internet portals, as well as a fully revamped time reporting and financial services platform.

In recognition of its integrated marketing campaigns and highly differentiated client services in the world of healthcare communications, CommonHealth was named the 'Most Innovative' healthcare communications organization in 2001 by *Med Ad News*, a leading industry publication. Achieving this reputation for new and creative marketing solutions rarely occurs in an industry's largest agency resource – that is what is uncommon about CommonHealth.

The Brand Union and Enterprise IG

The Brand Union management team is growing and managing a diverse portfolio of leading consulting and creative businesses. Having built Enterprise IG into the world's leading brand consultancy, the management team at The Brand Union now has set its sights on creating a number of new global businesses in the next five years. In addition to continuing to grow Enterprise IG, our growth strategy has four additional areas of focus which are of increasing importance to both global and local clients: strategic marketing consulting; brand analytics; internal communication; and live events. With some of the leading providers of services in these areas already member companies, a foundation is in place to create a business whose capabilities and scale are unprecedented in the industry.

Although 2001 was a tough year, there were a number of notable highlights to celebrate.

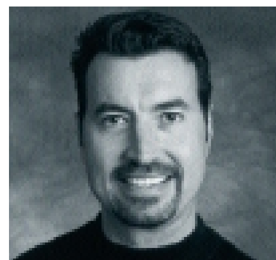
- Enterprise IG opened offices in Tokyo, Bangkok and Dublin, bringing its network to 22 offices worldwide. Major assignments won during the year include Del Monte and Holcim in the US, Aeon in Japan, Red Bull in Thailand, The Sydney Opera House, SNS Bank in Holland, Coloplast in Denmark, Coca-Cola in Germany, Veda Vodka in Russia and TXU in the UK. The company also won many awards including a silver D&AD for Royal Mail, a gold global packaging award for Peets Coffee and Teas and five Creativity Awards.
- Addison Corporate Marketing continued to grow its consultancy offer through an industry-leading stakeholder alignment programme (ASAP). Consultancy clients include Diageo, Shell, Novartis and Instinet.
- BPRI continued to expand its international network, by adding a third office in Sydney, and had notable client successes with Accenture and Ericsson.
- icon brand navigation, a world leader in research-based marketing strategy consulting, joined the Brand Union in April. From its headquarters in Germany and with six offices, icon works with many international brand leaders. In 2001 icon won the pan-European advertising tracking for General Motors Europe (GME).
- Lambie-Nairn won two silver British Design Association Promax awards and were appointed to create the new brand for the client O_2.
- MCA, the internal communications consultancy responsible for putting people first again at British Airways, was acquired in June. The company is the UK's leading provider of programs designed to align brand promise with employee behaviour.
- MJM, one of the US's leading live events and meetings specialists, was acquired in August – adding a new skill to the Group and helping us to strengthen our relationship with major clients like IBM and Pfizer.
- Oakley Young were ranked number one in their point of purchase display industry by clients and won a major new assignment from Estée Lauder.
- The Clinic won a major piece of work for BT.
- The Henley Centre conducted its first Social Changes study in the US and won work from BT, The Army and Coca-Cola.

Specialist communications

Interactive, relationship marketing and promotion

- RTC was named relationship marketing agency of record for Nasdaq, the world's largest stock market, and is also working with digital@jwt to provide Nasdaq with integrated marketing solutions.
- VML was acquired by WPP in June of 2001 and reported a record level of revenue for the first year as part of WPP. The organisation is beginning to forge new relationships and leverage the network into growth opportunities, working collaboratively with other WPP agencies in the US and Europe. Major new business wins include the interactive AOR assignment from Burger King where VML is now handling talent negotiation, broadcast

John Zweig
Chief executive officer
Branding & identity, Healthcare and Specialist communications



Matt Geigerich
President and chief executive officer
CommonHealth

Dave Allen
Joint chief executive
The Brand Union

Jim Johnson
Joint chief executive
The Brand Union

business management, franchisee extranet development, and new assignments in loyalty marketing. It has also expanded business with Colgate-Palmolive after winning the global Web Development AOR – working closely with Y&R and Y&R2.1 – to bring innovative online and digital marketing solutions to Colgate brands worldwide.

Strategic marketing consulting

- Glendinning, a leading international marketing consulting company focusing on 'demand management' joined the Group in April 2001 with a blue chip consumer goods client base and capabilities in Europe, Asia, South Africa and North America. Glendinning is staffed by senior sales and marketing line managers previously with leading companies such as Unilever, Procter & Gamble and Mars.

Demographic marketing

- The Geppetto Group, originally a WPP start-up, was the winner for the second consecutive year of the Golden Marble Awards (recognising creative excellence in kid advertising/marketing) for best overall TV campaign; and added Coca-Cola to its client roster after a highly competitive pitch comprised of big, multinational agencies; Geppetto authored two forward-thinking pieces of research: *Gender* and *Teen Girls*, and beat our profit projections by nearly 100%.

Industry sector marketing

- At Pace, the leading real estate advertising business, billings and profit were the highest in 12 years; Green Advertising of Boca Raton, Fla, acquired by Pace in 1999, showed a 100% profit growth in 2001 as compared to 1999 and 20% over year 2000.
- Shire Health Group, a London-based PR and medical education resource, won European 'Consultancy of the Year' Communique award for PR and medical education – for the third time in four years. In addition, Shire Health Group won 18 other Communique awards in 2001, and won two Creative Excellence awards at the Chicago Film Festival. Shire Health Group's New York office was set up in collaboration with CommonHealth to support a global expansion strategy, and enabled major global account wins with Roche, Pfizer, and Boehringer Ingelheim for the first time – offering a truly transatlantic service to their US and European teams. Olog-e, a digital communications agency, was launched to further extend the service offering in Shire Health Group to web design, animation and film making for healthcare clients.

Media, technology and production services

- International Presentations opened offices in New York and Hong Kong and moved into investor relations roadshows.
- Metro Group provided high definition camera equipment for the first ever multi-camera shoot in the UK (SClub7 concert) and for what was reputed to be the largest ever multi-camera shoot in the world at the Robbie Williams concert in Germany.

Sports marketing

- PRISM Group had another strong year that started with securing the global Shell sponsorship communications account; quickly followed by a successful bid for client Heineken with the 2004 Athens Olympic Games. Mid-year, PRISM was named Land Rover's global sponsorship agency. The firm's product launch skills were also used heavily in the year by Shell for their new Optimax brand and by Ford for their all new Fiesta. PRISM ended the year by opening a new office in Southern California to service newly-won Jaguar and Land Rover public relations business.

John Zweig

Group financial performance

Turnover was up 50% to £20.9 billion, reflecting in part the full consolidation of media investment management.

Reportable revenue was up almost 35% to £4.022 billion and gross profit up over 38% to £3.790 billion. On a constant currency basis, revenue was up 33% and gross profit up over 36%. Pro-forma for the merger with Y&R, constant currency revenue was up over 1%.

Profit before goodwill, interest, tax, investment gains and write-downs was up almost 30% to £561.1 million from £431.1 million and up almost 32% in constant currencies.

The Group's tax rate on profits was 28%, down from 30% on the previous year, reflecting the impact of further improvements in tax efficiency.

Diluted earnings per share before goodwill, investment gains and write-downs were up almost 2% at 30.6p. In constant currency, earnings per share on the same basis were up slightly.

All severance and restructuring costs have been included in operating profits. In light of the collapse in technology equity valuations, it has been considered prudent to write down the net balance sheet value of the Group's investments in this area by £70.8 million. This results in diluted earnings of 23.7p per share after these non-cash write-downs. At the end of 2001, the unrealised surplus on the Group's other quoted fixed asset investments was over £80 million.

The Board recommends an increase of 20% in the final dividend to 3.06p per share, making a total of 4.5p per share for 2001, a 20% increase over 2000. The record date for this dividend is 7 June 2002, payable on 8 July 2002. The dividend for 2001 is almost seven times covered by earnings.

Operating margins

Pre-goodwill, operating margins (including income from associates) were 14% on a reportable and constant currency basis. The margin gap between the very best performing competition and ourselves continues to narrow. Post-goodwill, profits before interest, tax, investment gains and write-downs was up almost 31% to £546.3 million from £417.4 million.

Operating margins before short-term and long-term incentive payments (totalling £81 million or over 12% of operating profit before bonus and taxes) fell to 16% from 17.9%, reflecting the impact of more difficult trading conditions and of the Group's pay-for-performance compensation strategy. Reported operating costs rose by over 39% and by over 37% in constant currency.

On a reported basis the Group's staff cost to gross margin ratio, excluding severance and incentives, rose to 56.5% from 54.1%.

Variable staff costs as a proportion of total staff costs have increased over recent years, although the impact of the recession in 2001 has reduced this ratio to 8.2% and variable staff costs as a proportion of revenue to 4.6%. This highlights the benefits of the increased flexibility in the cost structure.

With the recession, the task of eliminating under-utilised property costs has again become a priority. The Group occupied approximately 14 million square feet worldwide, at a total establishment cost of $466 million in 2001. Around one million square feet at an annual cost of $39 million is under-utilised currently, mainly in the US. Despite the traditional inflexibility of property costs, approximately one million square feet of the Group's property portfolio is scheduled for renewal or termination in the US in the next two years.

Like-for-like performance

On a like-for-like basis, excluding all acquisitions, revenue was down by 3.0% and gross profit was down 4.0% on 2000. Total operating and direct costs were down 3.5% on the previous year. Staff costs excluding incentives were flat, as were total salaries.

On a constant currency basis, pre-tax profits were up over 29% reflecting the weakening of sterling against the dollar, counterbalanced to some extent by strength against the euro. If sterling had stayed at the same average levels as 2000, on this basis profits would have been £478.0 million.

Headcount

Our staff numbers (excluding associates) averaged 50,487 against 36,157 in 2000, up over 39%. On a like-for-like basis, average headcount was down to 50,487 from 51,398, a decrease of almost 2%. At the end of 2001 staff numbers were 51,009 compared with 55,811 at the end of 2000 on a pro-forma basis, a reduction of almost 9%.

Manufacturing

Gross profit was flat with operating profit and margins up slightly at the Group's manufacturing division.

Parent company initiatives

Increasingly, WPP is concentrating on its mission of the 'management of the imagination', and ensuring it is a big company with the heart and mind of a small one. To aid the achievement of this objective and to develop the benefits of membership of the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development. Ten practice areas which span all our brands have been developed initially in media investment management, healthcare, privatisation, new technologies,

new faster growing markets, internal communications, retailing, entertainment and media, financial services and hi-tech and telecommunications.

Acquisitions and start-ups

In 2001 the Group increased its equity interests, at a combined initial cost of £736 million in cash, in Advertising and Media investment management in the US, the UK, Australia, Brazil, France, Portugal, South Africa, South Korea, Taiwan and Turkey; in Information & consultancy in the US, Germany and South Africa; in Public relations & public affairs in the US, Argentina and Switzerland; and in Branding & identity in the US, the UK and Japan; in Direct, promotion & relationship marketing in the UK, France and Hong Kong; and in interactive in the US, the UK, France and South Korea.

Treasury activities

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

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

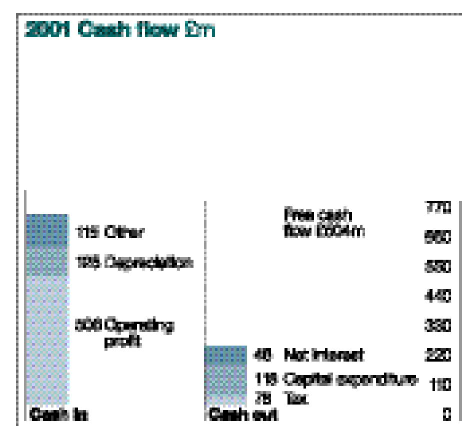
The Group's interest rate management policy recognises that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

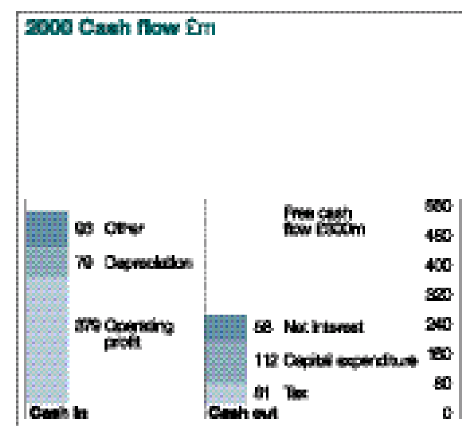
The Group therefore aims to limit the impact from increases in rates while seeking to ensure that it benefits from rate reductions by regularly reviewing its exposure profile and deciding upon the periods for fixing rates in the light of financial market expectations. Its principal borrowing currencies are US dollars, pounds sterling and euros. Borrowings in these currencies, including amounts drawn under the working capital facility, represented 99% of the Group's gross indebtedness at 31 December 2001 (at $782 million, £130 million and €1,050 million respectively) and 99% of the Group's average gross debt during the course of 2001 (at $1,282 million, £90 million and €610 million). 90% of the year-end dollar debt is at fixed rates averaging 5.11% for an average period of 40 months. 57% of the euro debt is at fixed rates averaging 5.49% for an average period of 50 months. The sterling debt is all at floating rates. Cash balances in these currencies at 31 December 2001 were £84 million, €125 million and $208 million (reflecting 42% of cash balances).

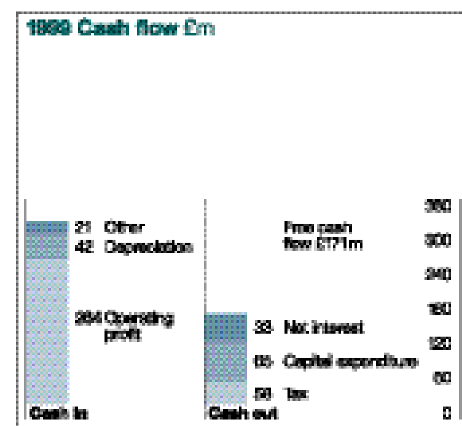
Other than fixed rate debt, the Group's other fixed rates are achieved through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2001, no forward rate agreements or interest rate 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 65.

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, as this is the predominant currency of revenues.

Significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. There were no such material contracts in place at 31 December 2001. No speculative foreign exchange trading is undertaken.

Cash flow

As at 31 December 2001, the Group had net debt of £885 million compared with net debt of £25 million at 31 December 2000 (2000: £36 million on the basis of 2001 year end exchange rates), following net cash expenditure of £736 million on acquisitions and £103 million on share repurchases.

Net debt averaged £834 million in 2001, up £411 million against £423 million in 2000 (up £385 million at 2001 exchange rates). The average debt figures for 2000 include the impact of the Y&R long-term convertible bond of £195 million for the final quarter. These net debt figures compare with a current equity market capitalisation of approximately £8.0 billion giving a total enterprise value of approximately £9.0 billion.

Cash flow remained strong as a result of improved profitability and management of working capital. In 2001, operating profit was £506 million, capital expenditure £118 million, depreciation and amortisation of £125 million, tax paid £78 million, interest and similar charges paid £46 million and other net cash inflows of £115 million. Free cash flow available for debt repayment, acquisitions, share buy-backs and dividends was therefore £504 million. This free cash flow was more than absorbed by acquisition payments and investments of £736 million, share repurchases and cancellations of £103 million and dividends of £44 million.

Your Board continues to examine ways of deploying its substantial cash flow of over £500 million per annum to enhance share owner value. As necessary capital expenditure normally approximates to 1-1.25 times the depreciation charge, the Company has concentrated on examining possible acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

As noted earlier, your Board has decided to increase the final dividend by 20% to 3.06p per share, taking the full year dividend to 4.5p per share which is almost seven times covered by earnings. In addition, as current opportunities for cash acquisitions may be limited particularly in the US, the Company will continue to commit £150-200 million for share buy-backs in the open market, when market conditions are appropriate. Such annual rolling share repurchases would represent approximately 2-2.5% of the Company's share capital. This is perceived to have a more significant impact in improving share owner value than dividends.

Net debt at 31 March 2002 was £1,505 million, compared to £987 million at 31 March 2001. In the 12 months to 31 March 2002, the Group's free cash flow was £502 million. Over the same period, the Group's expenditure on capital, acquisitions, share purchases and dividends was £928 million. Net interest costs will reduce in 2002 following the issue of a 2% £450 million Five Year Convertible Bond in April 2002.

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 2001 this resulted in a decrease of £81 million (2000: decrease of £133 million) in the sterling value of share owners' funds due to movements in exchange rates. In 2001, net assets of £3,641 million compared with £3,394 million (restated) in 2000.

2002 prospects

As usual and given conditions in 2001, our budgets for 2002 have been prepared on a conservative basis largely excluding new business particularly in Advertising and Media investment management. They predict flat like-for-like revenue in comparison to 2001 numbers and a stronger second half of the year relative to the first, driven primarily by easier comparables to last year. They also indicate Advertising and Media investment management revenue down 3% counterbalanced by marketing services revenue growth of 3%, primarily driven by comparative strength in Information & consultancy, Healthcare and direct. This compares with budgeted growth of 6% in 1998 against like-for-like outcome of almost 8%, budgeted growth of over 4% and achieving almost 8% in 1999, budgeted growth of 10% and achieving 15% in 2000 and budgeted growth of 7% and a decline of 3% in 2001.

In the first three months of 2002, constant currency revenues were down over 1% and on a like-for-like basis, excluding acquisitions and currency fluctuations, down almost 9%.

Net new business billings so far in 2002 were very strong with over $900 million of wins.

Incentive plans for 2002 will 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 Group co-operations.

In these circumstances there is no reason to believe that the Group cannot achieve the revised objective set in 2001 of further improving margins by up to another one margin point to 15% in 2002 with the potential for a further 0.5 of a margin point improvement in 2003. 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 15.5% by 2003. After all, the two best listed performers in the industry are or have 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. As a result of this confidence, your Board had already set a new operating margin plan, its sixth since 1991, to achieve further growth in operating margins beyond 2003. The objective is to achieve 20% margins over a period of time.

In the short term, advertising and marketing services expenditure will likely remain flat, although spending amongst the packaged 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 20% of the Group's revenue.

In the long term the outlook is very favourable. Overcapacity and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications and the continued dominance of the US economy 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 continue to grow.

Given these short-term 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 successfully integrate 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.

2001 has been a brutal year. 2002 will be difficult but hopefully not as traumatic. Early indications are that the worldwide growth of advertising and marketing services expenditure will be flat or slightly down. 2003 may be slightly better.

Our people have responded magnificently in 2001 to the difficult economic, political, financial, personal, emotional and psychological conditions that they have faced. They have delivered results which, even including all exceptional items, have out-performed their competition and grown market share.

We believe that despite the challenges that we face, 2002, WPP's seventeenth year, should be another good one.

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.