Dear share owner

2000, our fifteenth year, was another record year.

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

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

The only disappointment was that the share price, the real measure of your wealth, fell by 11.1% during 2000. However, your Company's share price performance ranks third in terms of share price appreciation against a comparator group of 14 global competitors since 1 January 1999.

The rest of this letter is based on constant currency comparisons, which are more meaningful given the continued strength of sterling in 2000. On a like-for-like basis, revenues were up by almost 15% and gross profits up 16%, very strong growth, albeit in a quadrennial Olympic and Presidential year; particularly with global inflation at 3-4%. However, growth at such strong pro forma levels is probably unsustainable in the medium to long term. If WPP were to grow consistently at these levels, it would be equivalent to a significant proportion of the current US GDP within 10 years. Double-digit like-for-like revenue growth remains your Company's growth objective.

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

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

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

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

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

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

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

Our six objectives remain as follows:

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

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

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

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

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

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

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

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

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

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

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

In property management, we continue to implement the WPP Space Program which seeks to improve the return on our annual investment of $600 million in our property, by improving communications, speed of response and efficiency, through new design and layout of our premises.

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

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

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

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

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

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

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

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

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

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

We will also enhance our leadership position in information and consultancy by continuing to develop our key brands with particular emphasis on North America, Latin America and Asia Pacific. We will also reinforce our growing position in media research through Kantar Media Research. This includes our investments in television audience research through IBOPE and AGB Italia, which following even greater success in the UK and Australia, now have strong representation in 27 countries in Europe, Latin America and Asia Pacific.

In addition, we will reinforce our worldwide strength in direct and interactive marketing and research through our traditional channels such as OgilvyOne, Impiric, digital@jwt, Alexander Ogilvy, Blanc & Otus and MB Interactive. Where the recent compressions in financial valuations may offer significant opportunities, we will also invest directly in the new channels.

Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail and interactive and to identify new high growth areas.

- Sixth, and you will be pleased to know our final objective, is to improve still further the quality of our creative output. Of the three things we do, strategic thinking, creative execution and co-ordination, creative execution is probably the most important – but we use the phrase in its broadest sense. Clients look for creative thinking and output not just from advertising agencies, public relations and design companies, but also from our media investment management companies, MindShare and The Media Edge and our research companies. Millward Brown is already arguably one of our most creative brands.

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

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

As companies grow in size, most chairmen and CEOs become concerned that their organizations may become flabby, slow to respond, bureaucratic and sclerotic. Any sensible chairman or CEO would not want this to be the case. They would want both the benefits of size and scale with the responsiveness and energy of a smaller firm. For the first time new technologies enable this to be achieved more effectively and easily.

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

As a parent company, we are developing practical principles and policies for charitable giving, the environment and support for communities and the arts, based on best practice guidelines. Our activities run in parallel with our operating companies' initiatives and programs in each of these areas. A summary of the Group's initiatives to date can be found on page 91.

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

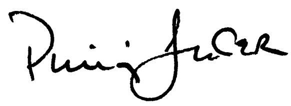
So we would ask you now, as share owners, to look behind those numbers, to remember their origin, to recognise the 65,000 people who work for WPP companies around the world: and to join us in respect and admiration for their talent and gratitude for their dedication. We hope they enjoyed themselves.

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

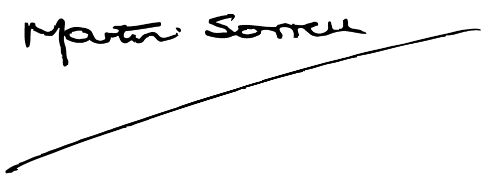
2001, although a more difficult year, should be an even better one.

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

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



Philip Lader
Chairman



Sir Martin Sorrell
Group chief executive