OPERATING and FINANCIAL

Competitive, geographic and sector performance

Competitive performance

There is still a significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies, The Interpublic Group of Companies Inc. (IPG) and Omnicom Group Inc. (Omnicom) achieve 15–16% operating margins, whilst their best-performing individual agencies such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of as much as 20%. This compares to a WPP parent company margin of 13.4% and combined margins at Ogilvy & Mather Worldwide and J. Walter Thompson Company brands of 16.4%. Historically, listed public relations companies showed operating margins of over 10% which have now been more than matched by our own operations. Operating management has indicated that margin performance can be improved even further.

The Group is targeting an improvement in operating margin of 0.6% in 2000 and has set a new operating margin plan to achieve a 15% operating margin by 2002, to bring us more into line with these competitors.

One of the Group's most important objectives is to increase its rate of organic revenue growth which is a key measure of the success of its value-added strategy. Excluding acquisitions, this was approximately 8% in 1999. Comparison with our competitors is difficult given that, to the best of our knowledge, they define organic growth rates differently absorbing acquisition revenues into organic growth rates more quickly. If we were to use their method of calculation, our organic growth rate would have been close to 10%. The high revenue growth areas of information and technology, telecommunications, healthcare, financial services and entertainment and media now account for almost a quarter of Group revenues. As a benchmark at the end of 1999 these sectors (excluding healthcare) accounted for approximately the same percentage of the FTSE 100 by market capitalisation.

Geographic performance

WPP derives more than 80% of revenue from outside the UK through its leading businesses in North America, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East.

Currently, North America and Europe each account for roughly 40% of the Group's revenue but this share will fall over the coming years as a result of the better growth of our business elsewhere in the world.

Economic conditions in North America and Europe remain sound as long as interest rate increases remain moderate and financial markets stable. The economic difficulties in Asia Pacific have moderated and reasonable growth is being experienced in China, Taiwan, Singapore, Thailand, Malaysia, India and Australia. Japan and Indonesia remain problematic, although there are some more optimistic signals from Tokyo.

Even Latin America is improving partly as year-to-year comparisons become easier and, in our case, as significant new business wins kick in. Our budgets for 2000 indicate a like-for-like growth rate of over 10% for Asia Pacific and Latin America.

Despite the recent recession, your Board continues to believe that Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe will offer superior opportunities for growth in the medium to long term. These markets now account for over 17% of the Group's revenue as opposed to 13% in 1992 despite the recent slowdown in growth. These markets are still forecast to continue to grow at significantly faster rates than those of North America and Western Europe in the long term.

Sector performance

On the following pages the heads of our eight operating brands summarise their operational activities and highlights for 1999.

REVIEW

Competitive performance
Revenue per head $000

WPP	98†	124.3
	99†	128.5
JWT/O&M	98†	105.6
	99†	108.1
Omnicom	98	130.3
	99	130.5
IPG	98	125.8
	99	122.0

†Constant currency

Geographic performance
Constant currency revenue growth %

North America	98	11.1
	99	16.8
United Kingdom	98	17.7
	99	10.5
Continental Europe	98	20.9
	99	11.0
Asia Pacific, Latin America Africa & Middle East	98	5.4
	99	4.0

Sector performance
Constant currency revenue growth %

Advertising, media investment management	98	8.4
	99	5.2
Information & consultancy	98	26.4
	99	13.9
Public relations & public affairs	98	20.8
	99	30.5
Branding & identity, healthcare and specialist communications	98	12.0
	99	19.2

PBIT margins %

WPP	98	12.8
	99	13.4
JWT/O&M	98	15.3
	99	15.8
Omnicom	98	16.1
	98[1]	15.3
	99	16.0
IPG[2]	98	15.8
	99	14.7

Operating margins by geography %

North America	98	14.5
	99	14.8
United Kingdom	98	10.7
	99	11.8
Continental Europe	98	13.9
	99	13.1
Asia Pacific, Latin America Africa & Middle East	98	9.7
	99	11.7

Operating margins by sector %

Advertising, media investment management	98	14.9
	99	15.4
Information & consultancy	98	10.7
	99	10.0
Public relations & public affairs	98	11.7
	99	13.3
Branding & identity, healthcare and specialist communications	98	10.5
	99	12.3

Staff cost to revenue ratio %

WPP	98	49.7
	99	50.2
JWT/O&M	98	55.9
	99	56.6
Omnicom	98	59.0
	98[1]	59.6
	99	59.5
IPG	98	56.4
	99	56.5

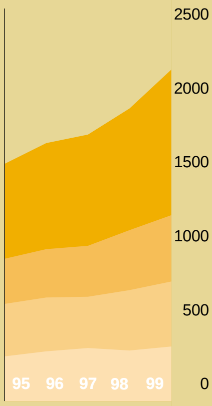
Revenue by geography £m

North America

United Kingdom

Continental Europe

Asia Pacific, Latin America Africa & Middle East



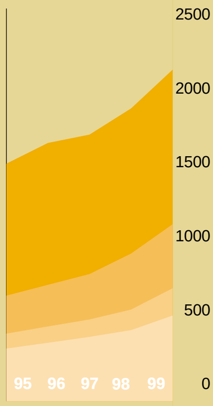
Revenue by sector £m

Advertising, media investment management

Information & consultancy

Public relations & public affairs

Branding & identity, healthcare and specialist communications



[1]Restated basis. As presented in the 1999 10-K, 1998 figures have been restated to include the acquisition of AMV on a pooling of interests basis.
[2]IPG's PBIT margin for 1999 includes a charge for restructuring costs of $84.2m. Excluding these costs, 1999 PBIT margin was 16.6%.

Operating and financial review
Reports from operating brands

Advertising and media investment management

Combined advertising and media investment management revenues at Ogilvy & Mather Worldwide, J. Walter Thompson Company and MindShare rose by 5.3%. Combined operating margins of Ogilvy & Mather Worldwide and J. Walter Thompson Company were 15.8%.

Combined operating costs rose by 5.3% and the combined staff costs-to-revenue ratio excluding incentive payments fell to 52.8% from 53.0%. Ogilvy & Mather Worldwide generated net new billings of £545 million ($899 million) and J. Walter Thompson Company £507 million ($837 million).

MindShare generated net new billings of £544 million ($897 million), an encouraging start in its first full year of European and Asia Pacific operations.

Conquest's revenues rose almost 12% and operating profits and margins were up sharply. Net new billings were £39 million ($65 million).

Ogilvy & Mather Worldwide

Last year in this space I made some predictions for Ogilvy's coming year – growth with existing and new clients, continued expansion of our offering, especially in interactive, more integration of our resources across disciplines, more great work, and above all even greater commitment to delivering 360 Degree Brand™ solutions for our clients. Happily, I have no amendments. Our predictions came to pass in a year that saw growth, profitability and tremendous momentum as we start the millennium.

Last year we added important new clients such as SAP, BP Amoco, Northwest Airlines, Miller Brewing Company, MotherNature.com, Telefonica, WebMD, and Tenneco to name a few. That success notwithstanding, it is our existing clients' belief in us that is the true measure of our value. Consider this: of the $1 billion in new business that we won in 1999, nearly 60% came from existing clients.

This is in good part due to the continued expansion of our offering. We have had substantial success in establishing new business units – in healthcare, brand consulting, rural marketing, design, technology, creative alliances and secondary networks. OgilvyOne continues to lead the way in service expansion. OgilvyInteractive saw a doubling of profits in 1999, and is now the largest interactive network in the world. Most importantly, all these units work together making our sum greater than the parts.

This is true affirmation of the mission we articulated several years ago: 'To be most valued by those who most value brands.' We have translated this ideal into a compelling business strategy that speaks directly to client need – building the brand at every point of contact with the consumer. We call this 360 Degree Branding™, and it is both a point of view and a discipline – one that requires rigorous consumer insight and in-depth analysis of the brand.

Our 360 Degree approach is changing the nature of our dialogue with clients. We have more strategic conversations. We are consulted much earlier in the planning cycle. Advertising alone rarely dominates; today it's also about service strategies, line extensions, customer acquisition and loyalty, internet applications, product design and functionality, retail initiatives, joint ventures and cross promotions, employee communications and training.

The price of entry for all this diversity is still great work; brilliant strategies demand brilliant executions. We remain as committed as ever to outstanding creative product. Our 277 major awards won over the course of last year – in virtually every category – are testimony to our sustained focus.

Even as we face a new future, we remain rooted to our past. It is fitting that in the year that David Ogilvy, the man, passed away we have embraced David Ogilvy, the founder, the leader, the humanist, the business philosopher, and creative idealist in a way that is totally fresh. We introduced a new brand identity for our company that features his signature – a potent symbol that David's guiding principles and deep convictions are shared with a new generation.

I feel tremendous momentum as we start this new century. As I look ahead I see new ideas, new ways of working, of understanding the consumer and interpreting the brand. There are great opportunities to be seized, and will be, as we become Ogilvy & Mather of the 21st Century.

Shelly Lazarus

J. Walter Thompson Company

1999 was a particularly important year for J. Walter Thompson. The decisive steps we have taken to broaden our brand-building capabilities, deepen our talent pool and scale even higher creative ground accelerated our momentum across the globe. This sharper competitive edge produced one of the best new business, revenue and profit performances in JWT's 136-year history.

Commenting on our progress in North America, *Advertising Age* wrote: "In the turnaround of the decade – maybe even longer – JWT sprang back with a vengeance."

Major new business wins were topped with the multinational consolidations of Kimberly-Clark and Diageo/UDV. In North America, significant account gains included Qwest Communications International, Unilever's Salon Selectives, Bermuda Tourism, Miller Genuine Draft, Shell Oil, Pepsi Aquafina, Hefty Bags, Pacific Gas and Electric Company, Fox Home Video, Safeway and key Nestlé brands in Canada.

Europe posted dynamic growth with the wins of Coty-Rimmel, Sony, Warsteiner Beer, Unilever culinary brands and Lycos. In Latin America, JWT won Ford, TeleCentro, Unilever and Nestlé brands in Brazil; Heineken in Chile; Telecom in Colombia; Ascerca Airlines and Kraft brands in Venezuela. Asia Pacific added Ford Jaguar in Australia and in China, China Light and Power; Allergan in Japan; and the pan-regional Hewlett-Packard and Prudential Insurance accounts.

In addition, each of our core multinational clients entrusted us with important new brand and geographic assignments.

We made big steps in our capacity to meet the new needs of the changing marketing landscape. Two initiatives deserve particular comment.

We unified our digital advertising and marketing assets under the banner of Digital@JWT and integrated this powerful e-commerce resource within the framework of Thompson Total Branding. This new unit emerged as a pacesetter in attracting e-commerce clients worldwide, serving more than 50 dotcoms on an integrated basis in this burgeoning business sector. Importantly, we became a valued digital partner to existing premier roster clients such as Kraft, Ford, Unilever, Diageo/UDV, Qwest, Bosch, De Beers, Merrill Lynch, Nestlé and Shell Oil. Plans call for continued expansion of our global digital marketing network in 2000.

We also broke new ground in forging relationships between brands and consumers by tapping a prime mover of popular culture, entertainment. The newly launched ©JWT (Content at JWT) becomes the first agency-owned subsidiary designed to integrate advertising, entertainment properties and digital communications into new forms of content as media convergence becomes a reality. This exclusive alliance with Basic Entertainment and its Brillstein-Grey Management (BGM) division affords JWT and its clients broad access to Hollywood's best in television, movies, the internet and publishing.

JWT expanded its global reach and resources with acquisitions and investments in leading advertising agencies in Argentina, Israel, the Netherlands, Spain and the UK, marketing services companies in Italy and Australia and an interactive marketing company in the US. ThompsonConnect, our direct and new media company, continued its expansion worldwide. JWT's Lab, our new global intranet built in-house, links our operations online to share information, learning and news.

We raised the bar by every key measure in 1999: growth, talent, creative award achievement, global expansion and our clients' business success. The insight, innovation and imagination of thousands of our professionals around the world are leading JWT to engage, listen to and reach out to people in exciting ways that are transforming our business for a new century. We're having a lot of fun as we go.

Chris Jones

Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

Charlotte Beers
Chairman
J. Walter Thompson Company

Chris Jones
Chief executive officer
J. Walter Thompson Company

Dominique Simonin
Chairman
Conquest

Luca Lindner
Chief executive officer
Conquest

Conquest

Another year of growth for the 'Challenger Network for Challenger Brands.' Growth of billings, revenues, profits, margins, number of clients, as well as, vitally, the quantity and quality of our talent. A great result was delivered by our Senior Partners and Partners (now 20 in all), our teams all over Europe and it's fair to say with great support from the Group.

Three case histories which drive to one big business lesson:

- Ermenegildo Zegna or the challenge of openness: Conquest Milan (working with Research International and MindShare) started to work for one of the most successful Italian men's apparel and luxury goods brands in the world. From the outset, we believed it was almost impossible to progress the international development of such an exceptional brand using only traditional advertising resources and tools. So we started working with a London fashion art director and are now developing a 'luxury goods observatory' involving people from five different countries and many different disciplines (film directors, designers, luxury hotel managers, a psychologist). In this way, we are able to offer Zegna – and other luxury brands such as Maserati and Singapore Airlines – a comprehensive insight into the secrets of marketing luxury brands worldwide.
- Bank of Scotland or the challenge of integration: Conquest London shared the Bank of Scotland account with McCann-Erickson, BBH and the Leith Agency and last year all the business was offered for a pitch on a winner takes all basis. Conquest, led by Senior Partner Julian Saunders, proposed a radical solution – an integrated team of WPP specialists. OgilvyOne, Scott Stern and Conquest created a virtual agency to service the business. It defeated the conventional solutions and secured a win worth £30 million in billings for WPP Group.
- Aventis or the challenge of cultural assimilation: when Hoechst (a German company) and Rhône-Poulenc (a French one) decided to merge in order to create a world leader in Life Sciences they needed to communicate to a world audience and called for a pitch against Saatchi & Saatchi, Lintas, Havas and Lowe. Aventis chose Conquest because the tailor-made Conquest/WPP team led by Dominique Simonin developed a campaign truly reflecting the aspirations of Aventis: a global company with European roots.

The business lesson? Challenger clients are fast, flexible and creative. To paraphrase Charles Darwin, we have to adapt or die.

Luca Lindner

MindShare

In 1999, with the launch of its North American operations, MindShare became the largest media investment management company in the world with annual billings of $17 billion.

MindShare enters its third full year of operation in an environment where the need for media specialisation is reinforced by the continued acceleration in media fragmentation and complexity. Media vendors around the world are consolidating further, posing trading challenges and opportunities. Most important, the advent of convergence and interactive capability will impact both traditional and new media investment management practices.

In this context, we have only one priority: the excellence of our media product. MindShare applies all of its resources against this goal. Our focus is on attracting and retaining the best talent, and developing the best systems, tools and insights to guide our strategic, tactical, and implementation operations.

As a global company, we work hard to identify, develop and apply our best practices across our network. With our scale, we are better able to amortise the high cost of world-class systems development. Our size also allows us to apply our systems and approaches to maximise media trading effectiveness for the benefit of clients.

MindShare was very active in 1999 both in terms of geographic expansion and in winning additional business. The establishment of MindShare in North America was the logical extension of The Alliance, a joint media buying operation that was shared by O&M and JWT since 1997. With the full combination of both media departments set in motion, MindShare USA becomes an even more formidable negotiating force in the market. During 2000, the North American roll-out of MindShare will continue.

MindShare continued to expand in all other regions as well, and is already a truly global company finishing the year with operations in 39 countries and further expansion planned for 2000.

As significant as our expansion, we continue to be pleased by the number of new client assignments. These have included Unilever, Kraft, Britvic Pepsi, Nike, Telecom Italia, Sara Lee, KPN and Ford.

Along with chief operating officer Dominic Proctor and our people, I look forward to MindShare's first year as the world's leading media investment management company.

Irwin Gotlieb

Irwin Gotlieb
Chairman and chief executive officer
MindShare

Information & consultancy

The Group's information and consultancy businesses continued their strong revenue growth with gross profit rising by almost 14% but operating costs rose slightly faster and as a result margins were slightly down on the previous year. Particularly strong performances were recorded by Millward Brown in the United States, United Kingdom, Italy, Spain, Germany and Singapore; and at Kantar Media Research through BMRB and IMRB.

The Kantar Group

Last year saw the sixth straight year of global market share gain as we expanded the business organically and by acquisition. We received continued support from our loyal client base winning 20 new $1 million plus projects from existing clients and a further six $1 million projects from new clients.

Our active acquisition programme had the twin objectives of geographic and functional expansion.

Geographically, Millward Brown founded start-ups in Japan, Mexico, Brazil, Hungary, and Czech Republic. Research International acquired in Mexico, and Kantar Media Research in Poland.

Functionally, we expanded our global reach and our scope in a number of different directions.

Kantar Media Research strengthened its software division through the acquisition of SPC, an acknowledged leader in media planning and analysis software.

The Winona Group acquired Center Partners, a rapidly expanding customer handling company specialising in outsourced, high-level technical support for technology and telephony companies.

Millward Brown (MB) made three acquisitions. IntelliQuest brought to MB specialisation in technology and internet research through syndicated services, its computer media study, and its valuable panel of technology buyers and influencers. Diagnostic Research International cemented MB's position as the dominant advertising copy testing research company in the world. Precis, a public relations specialist research company, now enables MB to relate PR to brand development.

Kantar Media Research succeeded in regional launches of the Target Group Index media planning tool in Europe and South America, and AGB Italia, in which WPP holds a minority interest, won hotly contested competitions against key global competitors for the Television Audience Measurement contracts in the Philippines and Australia. All our companies continued to develop their presence and expertise in internet research and we established Kantar Interactive to service our companies' needs for web panels of consumers and business people.

Our clients' interest in the equity of their brands continued unabated and Research International launched a well received, new product, *Loyalty Driver*, which helps clients understand the mechanics of customer acquisition and retention. WPP also increased its investment through Millward Brown in the global *BRANDZ*™ study which is now by far the most comprehensive assessment of brand equity available today.

1999 was a further year of strengthening our infrastructure and product offerings. Looking forward, we expect to benefit from these investments while continuing to reshape our businesses to meet our clients' global and local needs and to grasp the new challenges and opportunities presented by the development of e-commerce and the internet.

David Jenkins

Phil Barnard
Joint chairman
The Kantar Group

Martin Goldfarb
Joint chairman
The Kantar Group

David Jenkins
Chief executive officer
The Kantar Group

Public relations & public affairs

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

Hill and Knowlton's revenues rose by over 17% and operating costs by almost 16%. As a result, margins increased to over 11%, ahead of previously established targets and schedules.

Ogilvy Public Relations Worldwide's revenues rose by over 79% and operating costs by approximately 71%. For the third year in a row following the change in leadership, profitability and margins improved significantly over the previous year.

Our public relations and public affairs businesses as a whole showed operating margins of over 13%, in excess of the Group's objective for 1999 and in line with the best-performing publicly listed competition. Operating management has developed new three-year plans that indicate further significant improvement in operating margins.

Howard Paster
Chairman and
chief executive officer
Hill and Knowlton
Worldwide

Bob Seltzer
Chairman and
chief executive officer
Ogilvy Public Relations
Worldwide

Hill and Knowlton

The dotcom revolution, globalisation and client demands for both more specialisation and more ability to integrate communications drove Hill and Knowlton's growth through 1999. As the second-largest public relations and public affairs consultancy in the world, we benefited from the increasing complexity in communication needs and continue to invest in supporting the emerging needs of clients everywhere.

The technology sector drove significant growth. H&K's Blanc & Otus doubled in size and expanded from three locations into five. In Europe, we acquired powerhouse Hiller Wüst & Partner in Germany, and in Latin America, acquired Premio, a leading Mexico City-based public relations firm in the technology sector.

Dotcom business exploded in all regions of the world, and with the creation of H&K DotCom, the first integrated global service for both start-ups and bricks-to-clicks internet companies, more than 100 clients already have tapped into H&K's expertise.

Marketing remained of paramount interest to clients, with companies such as Procter & Gamble significantly expanding its business lines throughout H&K's worldwide regions and practices. The health and pharmaceutical sector, including client leaders such as Johnson & Johnson, remained strong, representing 25% of our top accounts.

We deepened our offer in public affairs with a particular emphasis on international trade with an eye to further expansion in 2000. The company's approach to the growing politicisation of trade is to use a multidisciplinary, multi-country service to assist clients, combining unmatched expertise in trade policy and negotiations with public affairs and strategic communications experience.

We expanded geographically with the opening of a new operation in Guatemala City, and the acquisitions of Captiva in Chile, a new offering in Poland and Ducharme Perron in Quebec City. In Paris, meanwhile, H&K combined forces with JWT to form Thompson Corp., a joint venture that offers clients a completely integrated communications solution.

The result of these investments and growth is that H&K's clients, according to the most recent Thomas L. Harris/Impulse Research, rate H&K more highly than other PR agencies' clients rate their consultants.

The future looks strong as the firm continues to outpace the competition by exploiting emerging growth opportunities, anticipating where the relevant, new-sector growth will be and, as always, setting the standards for quality client service.

Howard Paster

Ogilvy Public Relations Worldwide

1999 was a year of solid accomplishments, award-winning programmes, extraordinary growth and overwhelming change. We finished the year:

- As the fastest-growing firm among the top 20 worldwide agencies, with a growth rate of 59%.
- As a top 10 player, now ranked ninth with revenues of more than $125 million.
- Named 'Most Improved Agency of The Year' by *Inside PR*.
- Named the number one Healthcare Agency by *Inside PR*.
- Ranked third in the size of our technology business, clearly the fastest-growing area in our field.

Our growth stemmed from expanding existing business and attracting new clients, many of them seeking regional or global support, and through several critical strategic acquisitions. These acquisitions included:

- Feinstein Kean Partners, now Feinstein Kean Healthcare, Boston-based specialists in serving biotechnology companies. FKH's client base spent the last part of 1999 undergoing the same investment boom as technology companies have been experiencing.
- B|W|R, an entertainment firm, with offices in Los Angeles and New York, positioned to be at the core of the

conversion of entertainment and technology.

- Magellan Communications, a UK-based healthcare PR firm absorbed into our London office to strengthen our European healthcare capability.
- Sector, a UK-based financial services specialist firm absorbed into our London office to bolster our corporate capabilities in this critical market.

The late 1998 acquisition of Alexander Ogilvy had a dramatic impact in 1999 on the firm's leadership position in technology PR and the new economy. To better serve our technology clients, which now represent more than 35% of our overall business we introduced Ogilvy e-brands, a suite of services to help clients build brands as well as build business in today's competitive internet environment.

Our long-term commitment to stellar client service continued unabated. We picked up numerous awards over the year, including having our Jakarta office named the best in Asia. We ended 1999 with 23 of our top 25 clients returning in 2000, for a maintenance rate of 92%.

With 44 offices in 39 markets and with opportunity knocking every day and growth abounding, Ogilvy PR faces the year 2000 determined to attract, grow and retain the best people in public relations around the globe.
Bob Seltzer

Branding and identity, healthcare and specialist communications

Branding and identity, healthcare and specialist communications revenues rose by over 19%. Gross profit rose by over 23% and operating costs by almost 21%. As a result, overall operating margins increased.

Several of our companies in this sector performed particularly well, including in promotion and direct marketing – RTCdirect, EWA, OgilvyOne, A Eicoff & Company; in branding and identity – Brouillard and Enterprise IG; in healthcare – Thomas Ferguson Associates and OZM Group and in other specialist marketing resources – The Henley Centre, JWT Specialized Communications, Management Ventures, Pace Communications Group, The Geppetto Group, Savatar and Mendoza Dillon & Asociados.

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

Since the formation of WPP, we have recognised the potential of specialist communication services as an expression of clients increasingly seeking better targeted and more efficient marketing approaches – but these niche businesses themselves have tended to be small, fragmented, and relatively local.

Gradually over the recent years, and clearly as of 1999, healthcare and branding/identity have emerged as two of our first business platforms with all the strategic benefits of a focused mission, yet with the potential of global scale.

This makes it all the more exciting that, in CommonHealth and Enterprise IG, WPP now has the most powerful top-ranking brands in these two important categories. Our efforts to build bridges, find common purpose, and share opportunities have resulted in businesses the size and scope of which have never before existed in either healthcare or branding and identity.

This is significant – first, because it is our aim to build leadership positions in every area where we compete. Equally important, the learning from this experience can guide the leadership of other specialist businesses, who are also striving to grow to unprecedented levels in their respective categories through the depth, range and reach of WPP's resources.

A few of the 1999 initiatives and achievements – both independent and collaborative – across the spectrum of specialist businesses include:

- With the integration of branding and identity businesses Winderlich in Germany and Brindfors in Scandinavia, and the acquisition of Springham Anderson and Horniak & Canny in Asia Pacific, we have expanded the international markets where Enterprise IG is represented from eight at the beginning of 1999… to 15 today.
- A widely publicised repositioning and branding assignment was implemented globally for Arthur Andersen. Also awarded to Enterprise, introduced by and working closely with Ogilvy, was a Ford Motor

Company corporate branding and identity project.

- New consulting and design services were acquired in the Brand Union and Lambie-Nairn, in particular, with its special expertise in broadcast identities. Additionally, the acquisition of BPRI brings to Enterprise corporate reputation research complementing the *Equitus Brand Analytics* service, which was developed jointly by Enterprise and Research International.
- The acquisition of Shire Hall Group – Europe's largest independent healthcare communications company and voted best PR and medical education agency in 1999 for the second year running – expands our healthcare reach and expertise.
- CommonHealth picked up its first global client assignments from Pharmacia & Upjohn, Procter & Gamble, and Astra Zeneca; and strengthened Quantum and RTC's position as the largest US direct-to-consumer advertising and relationship marketing resource through assignments like Schering's Claritin, a brand that has revolutionised pharmaceutical product marketing.
- Health-targeted joint ventures formed by CommonHealth and other specialist communications companies in branding identity (Enterprise Health), promotion and event marketing (Einson Health), and ethnic marketing (MDA/Salud) have already yielded pharmaceutical assignments in all three ventures.
- Einson Freeman won joint pitches with Ogilvy for Sears, where it was named exclusive sales promotion agency, and BP Amoco. Einson's Mexico City office was awarded a WPP Worldwide Partnership Award for its work with J. Walter Thompson.
- The acquisition of PRISM, an international sports marketing, events and PR firm with offices in Europe, Australia and North America brings clients such as Jaguar, the Royal College of Arts, and many worldwide divisions of Ford Motor Company.
- Perspectives, a leading UK-based promotion and marketing services company was also acquired – and the firm won two 1999 Institute of Sales Promotions Awards and a Drinks Advertising and Marketing Award for best new media campaign.
- Demonstrating the number of potential partners that can be assembled from WPP's resources, The Market Segment Group led the development of an ethnic and target marketing planning platform on behalf of IBM – collaborating with Ogilvy, Einson Freeman, Mendoza Dillon, Millward Brown and IntelliQuest.
- The Food Group won its first global promotion assignment for the Norwegian Seafood Export Council tapping into its *Creative Food Solutions* kitchens which created authentic recipes from China, Italy, France, Japan, Spain and Germany.

There were many important accomplishments in our other specialist businesses – retail, package design, strategic marketing consulting, internal communication, media and technology services and real estate advertising. And with each came the opportunity to experience the power of both focus *and* collaboration to produce extraordinary results for our clients. Our people today are better trained, more highly motivated and more closely knit, and our unique businesses are better equipped than ever to thrive no matter where client needs will take us.

John Zweig

wpp.com

In 1999 a new media parent company, wpp.com, was formed with WPP non-executive director Esther Dyson as chairman and WPP strategy director Eric Salama as chief executive.

Like WPP itself and Kantar, wpp.com is a parent company seeking to add value in the areas of new media and technology to clients and people and accelerate the development of our interactive capabilities and revenues. wpp.com will co-ordinate our new media activities across our operating brands.

Our pure internet revenues (web-based work) for 1999 were over $100 million, while a broader definition (which, for example, would include branding work for dotcom clients) would result in revenues of approximately $500 million. Our budgets for 2000 for the narrowly based definition of interactive work show growth rates in excess of 50%. It will become increasingly difficult to accurately identify the overall impact on our revenue base given the strategic importance of the web to our largest clients (such as our three biggest – Ford, Unilever and IBM) and the increasing importance which clients are attaching to differentiating themselves against traditional and new competitors.

To date wpp.com has concentrated on strengthening our existing operations, acquiring new operations in areas which we think are critically important, investing in start-up internet companies with whom we wish to partner and spreading knowledge of these developments around our organisation.

Our most important wholly-owned internet operating companies include Ogilvy Interactive, the strongest global agency in the market, recent winner of the majority of the first Cyber Lions at Cannes, AdAge's International Interactive Agency of the Year and one of AdWeek's top ten hot interactive shops in 1999; Digital@JWT, which has recently won a series of web accounts in the US; MindShare, which in combination with Ogilvy Interactive is the largest buyer of internet media in the world; Kantar Interactive, whose constituent parts include MB Interactive (widely regarded as the most advanced internet-based research company), IntelliQuest (the leading company in market research for hi-tech clients) Lightspeed (Kantar's e-mail based internet panel), and RI Interactive (a leader in web-based focus groups); Alexander Ogilvy, Ogilvy Public Relations Worldwide, Blanc & Otus and Hill and Knowlton who between them work with over 400 dotcom clients on public relations and public affairs around the world; and Career Agent, a software tool developed by JWT Specialized Communications to help recruitment sites profile potential employees.

wpp.com also has minority stakes in internet and interactive marketing services companies such as Syzygy, UK Web Agency of the Year, United Media in Germany and Netforce in France, who have merged to create a pan-European e-services group and plan to be floated.

Major clients of our Group companies include IBM, Ford, Merrill Lynch, Sears, De Beers, Unilever, Siemens, QXL, Freeserve, Qwest, Mindspring, Nextcard, Ariba, Healtheon/WebMD, DrKoop, Chemdex, Instinet, iPlanet, idealab!, Boots, El Sitio, Medscape, Ameritrade, E·Trade, Ziff Davis and DoubleClick.

The CEOs of wholly-owned new media operating companies will continue to report into their existing management but will have a dotted line responsibility to wpp.com. wpp.com's Board includes the senior management of our major interactive operations.

Our interactive equity investments have been made indirectly, through venture funds, and directly. The aim of these indirect investments has been to keep abreast of Silicon Valley developments and identify potential client relationships – thus enhancing our core capabilities. Historically, the prime venture fund through which we have made indirect investments has been Media Technology Ventures (MTV) (www.mtventures.com) which has a West Coast US focus. MTV investments have included Medscape, Quokka Sports and Talk City – all recently floated on Nasdaq.

wpp.com has also invested money and become the preferred marketing partner to a new fund, Dawntreader Fund II, established by leading online investment banking firm, Wit Capital, and has entered into a memorandum of understanding with leading Latin American investors to establish a fund and invest jointly in that region.

wpp.com has also increased the number of direct investments it has made in B2B companies, recent examples including Intraspect (developers of knowledge management software), Concept! (the second-largest German web development company, recently floated on the German Neuer Markt), TWIi (the internet arm of IMG Group, the world's leading sports marketing company), e-Rewards (an e-mail based loyalty company), Imagine (e-CRM), Metapack (e-fulfilment), BigWords (e-commerce aimed at college students) and Visible World (software which allows the customisation of creative content on websites in real time). Past investments have included BroadVision, Peapod and HyperParallel.

The gross cost of these investments including commitments made, totals approximately $75 million. WPP does not consolidate any revenues from these investments but may realise the stakes at some stage in the future.

Group financial performance

Turnover was up 16.8% to £9.346 billion (reflecting the growth of media investment management), revenues up 13.3% to £2.173 billion and gross profit up 13.6% to £1.855 billion. On a constant currency basis, revenues were up 12% and gross profit up 12.4%. This, in part, reflected a strong fourth quarter when revenues exceeded $1 billion for the first time.

Operating profit (excluding income from associates) rose by15% to £263.5 million from £229.1 million and by over 15% in constant currencies. Profit before interest and tax was up 18.6% to £290.8 million from £245.2 million and up almost 19% in constant currencies.

The Group's tax rate on profits was 30.0%, an improvement on the previous year's 31.5%, reflecting the continuous benefit of tax reorganisations.

Diluted earnings per share rose almost 20% to 22.5p from 18.8p. In constant currency earnings per share rose by over 20%.

The Board recommends an increase of 22% in the final dividend to 2.1p per share, which will be paid in the form of an ordinary dividend, making a total of 3.1p per share for 1999, a 21% increase over 1998.

Operating margins

Reported operating margins (including income from associates) rose by 0.6% to 13.4% in line with objectives and by 0.8% on a constant currency basis. The margin gap between the very best-performing competition and ourselves continues to narrow.

Operating margins before short- and long-term incentive payments (totalling £71 million or almost 20% of operating profit before bonus and taxes) rose to 16.7% from 15.8%. Operating costs rose by over 13% and by almost 12% in constant currency.

The Group's staff cost to revenue ratio excluding incentives was almost flat at 46.9%.

Variable staff costs as a proportion of total staff costs have increased over recent years to 11.5% and as a proportion of revenues to 5.8%.

This has resulted in increased flexibility in the cost structure.

The task of eliminating surplus property costs has been achieved over the last eight years. Over 650,000 sq ft with a cash cost of approximately £14 million ($22 million) per annum has been sublet or absorbed.

Like-for-like performance

The majority of the Group's revenues, operating profits and cash flows (approximately 80-90%) are in currencies other than sterling. As there are few instances of significant cross-border trading, commercial exposures to foreign exchange fluctuations are limited.

The reported earnings of the Group, however, are affected by the value of sterling relative to overseas currencies, the most significant being the United States dollar, the euro, the Australian dollar, Hong Kong dollar, Japanese yen and Singapore dollar. The Group does not hedge reported earnings, although our predominantly dollar denominated debt is serviced primarily by dollar earnings in the US. As a result the Group analyses and reports its performance on a like-for-like basis (excluding the impact of currencies and acquisitions) wherever relevant.

On a like-for-like basis revenues rose by almost 8% and gross profit was up over 8% on 1998. Total operating and direct costs were up 7% on the previous year. Staff costs excluding incentives rose by over 8% and salaries by almost 9%.

On a constant currency basis, pre-tax profits were up almost 21% reflecting the weakening of sterling by 2% against the dollar being more than counterbalanced by its strength against Continental European currencies. If sterling had stayed at the same average levels as 1998, pre-tax profits would have been £256.4 million.

Headcount

Our staff numbers averaged 27,711 against 25,589 in 1998, up 8.3%. On a like-for-like basis average headcount was up 866 to 27,711 from 26,845, an increase of 3.2%.

At the end of 1999 staff numbers were 29,168 compared with 26,184 in 1998.

Manufacturing

Revenues and operating profit were flat 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 soul 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.

Innovative graduate recruitment schemes, awards and training programmes have all continued to be implemented and developed in 1999. In 1999 the parent company continued a worldwide share ownership programme for all our people with over two years' service, a partnership programme rewarding outstanding examples of collaboration across operating companies with the objective of adding value to our clients' businesses and training programmes on the new media and enhancing and stimulating creativity.

Acquisitions and start-ups

In 1999 the Group increased its equity interests in advertising and media investment management agencies in Australia, Austria, Brazil, France, Italy, the Netherlands, Portugal, Spain, Sweden, the UK and the US; in information and consultancy in Argentina, France, Germany, Mexico, Poland, the UK and the US; in public relations and public affairs in Chile, Germany, the UK and the US; and in branding and identity, healthcare and specialist communications in Brazil, the Czech Republic, France, Germany, the UK and the US.

Particularly interesting functional acquisitions and investments have been made in the world's leading loyalty marketing company (Brierley & Partners), hi-tech public relations and public affairs (Blanc & Otus, Hiller Wüst). Sports sponsorship, marketing and public relations (PRISM), corporate reputation research, branding and identity (BPRI, Brand Union, Brindfors, Windi Winderlich), multi-ethnic marketing (Market Segment Group), call centre marketing (Center Partners), digital and new media (NoHo, Mediaquest, High Co), online technology advertising (Dazai), airline marketing research (Jochems Ladendorf), television audience measurement (ILASA), outdoor advertising contracting (Portland), healthcare marketing (Shire Hall, Matthew Poppy), promotion and direct (Perspectives), specialist public relations (BWR, Feinstein Kean), financial services marketing consultancy (P·Four, International Presentations), and technology and media research (IntelliQuest, SPC, SMG, DRI).

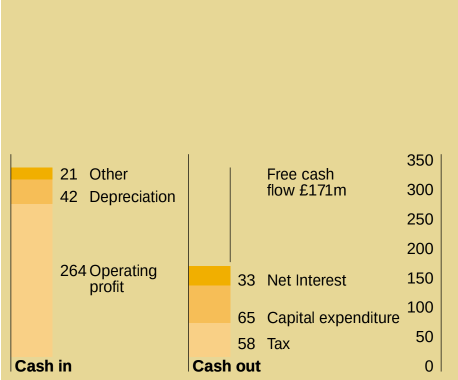
Treasury activities

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.

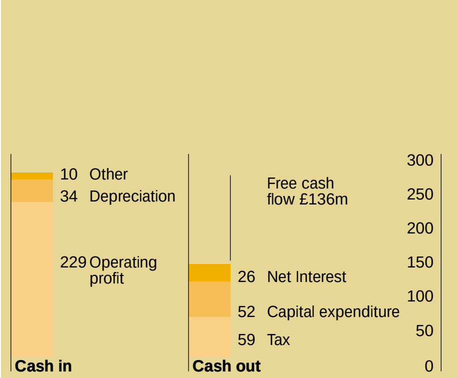
The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of Directors and subject to regular review and audit.

The Group's interest rate management policy recognises that fixing rates on all its debt eliminates

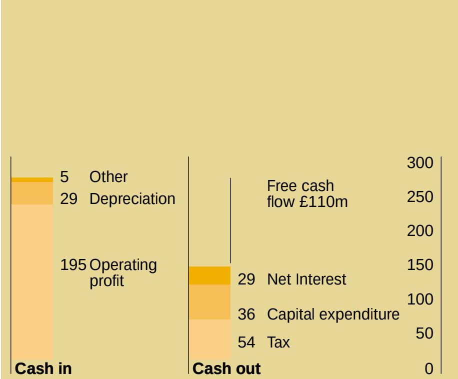
1999 Cash flow £m



1998 Cash flow £m



1997 Cash flow £m



the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.
The Group therefore aims to limit the impact from increases in rates while seeking to ensure that it benefits from rate reductions by regularly reviewing its exposure profile and deciding upon the periods for fixing rates in the light of financial market expectations.
Its principal borrowing currencies are US dollars and pounds sterling. Borrowings in these two currencies, including amounts drawn under the working capital facility, represented 99% of the Group's gross indebtedness at 31 December 1999 (at US$871 million and £132 million respectively) and 98% of the Group's average debt during the course of 1999 (at US$752 million and £71 million). 75% of the year-end US$ debt is at fixed rates averaging 6.42% for an average period of 52 months. The sterling debt is all at floating rates. Other than fixed rate debt, the Group's other fixed rates are achieved through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. However, the Group did not have any contracts in these instruments at 31 December 1999. These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowing and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis. An analysis of the debt and fixed rate maturities is shown in note 8.

The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained in excess of average gross borrowing levels and debt maturities are closely monitored.

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

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

Significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. There were no such material contracts in place at 31 December 1999. No speculative foreign exchange trading is undertaken.

Cash flow

As at 31 December 1999, the Group was cash positive with net cash of £92 million compared with £134 million at 31 December 1998 (1998: £124 million on the basis of 1999 year-end exchange rates), despite cash expenditure of £262 million on acquisitions and £18 million on share repurchases. As usual, this was primarily due to the seasonally strong fourth quarter and management efforts to improve working capital.

Net debt averaged £206 million in 1999, up £63 million against £143 million in 1998 (up £51 million against £155 million in 1998 at 1999 exchange rates). These net debt figures compare with a current equity market capitalisation of approximately £6.4 billion giving a total enterprise value of approximately £6.6 billion. Cash flow continued to improve as a result of improved profitability and management of working capital.
In 1999, operating profit was £264 million, capital expenditure £65 million, depreciation £42 million, tax paid £58 million, interest and

similar charges paid £33 million and other net cash inflows of £21 million. Free cash flow available for debt repayment, acquisitions, share buy-backs and dividends was therefore £171 million. This free cash flow was more than absorbed by acquisition payments and investments of £262 million (offset by £52 million of cash acquired), share repurchases and cancellations of £18 million and dividends of £21 million.

Your Board continues to examine ways of deploying its substantial cash flow of over £220 million per annum to enhance share owner value. As necessary capital expenditure normally approximates to 1-1.5 times the depreciation charge, the Company has concentrated on examining possible acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

As noted earlier, your Board has decided to increase the final dividend by 22% to 2.1p per share, taking the full year dividend to 3.1p per share which is over seven times covered.

In addition, as current opportunities for cash acquisitions at sensible prices are limited particularly in the US, the Company has increased the target amount available for share buy-backs in the open market to £100 million, when market conditions are appropriate. Such annual rolling share repurchases will represent approximately 1% of the Company's share capital which seems to have a more significant impact in improving share owner value. If sufficient small- to medium-sized cash acquisition opportunities are available and there are attractive opportunities for share repurchases, your Board is prepared to increase net debt further to the range of £200-250 million in comparison with the historical target range of £150-200 million. This level of debt would still represent only 2-3% of the Company's market value.

In the first three months of 2000, the period for which information is available prior to printing, net debt averaged £230 million versus £126 million for the same period last year (1999: £138 million at 2000 exchange rates).

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 1999 this resulted in a decrease of £31 million (1998: increase of £4 million) in the sterling value of share owners' funds due to movements in exchange rates.

In 1999, net assets of £327 million compared with £196 million in 1998.

2000 outlook

As usual, our budgets for 2000 have been prepared on a conservative basis. They predict like-for-like revenue increases of over 7% in comparison to 1999. This compares with budgeted growth of 6% in 1998 against an actual outcome of almost 8% and budgeted growth of over 4% and actual growth of almost 8% in 1999. In the first three months of 2000 we are showing an increase of almost 20% with last year's acquisitions accounting for approximately one-third of this growth. At current exchange rates, sterling has strengthened against the Group's key trading currencies by less than 1% on a weighted average basis when compared with the average for 1999, with strength against the Euro being mainly offset by weakness against the US dollar.

As a result of improved profitability and cash flow, it is not anticipated that a continuation of first quarter exchange rates will significantly affect the achievement of the Group's 2000 results.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 1998 of further improving margins by another 0.6% in 2000. Your Board does not believe that there is any functional, geographic, account concentration or structural reason that should prevent the Group achieving operating margins of 14% by 2000. After all the two best listed performers in the industry are 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.

2000, WPP's fifteenth year, should be another good year given the quadrennial boost of the US Presidential Election, the Sydney Olympics and the Millennium celebrations themselves. Early indications are that the worldwide growth rate of advertising will be stronger than 1999 at approximately 6-7% with marketing services growing at 8-9%. As long as financial markets remain stable and governments do not overdo deflationary correction, the worldwide economic environment should be good for growth in communications services expenditure as a whole. Although 2001 is further afield, it should see continued growth, perhaps a percentage point or so lower reflecting a possible Millennium hangover but the overall environment is favourable.

Paul Richardson
Group finance director