Dear Share Ow

1999, our fourteenth year, was another record year.

Turnover was up almost 17% to over £9 billion, reflecting the rapid growth in our media investment management activities, and revenues grew over 13% to over £2 billion for the first time. Pre-tax profits rose by 20% to over £255 million, earnings per share by almost 20% to 22.5p and dividends by 21% to 3.1p.

The real measure of your wealth, the share price, rose by 168% during 1999.

This strong growth in the Company's share price resulted in your company being ranked in the top half of the FTSE 100 (having only entered in June 1998) and of the Eurotop 300 index. It is also ranked in the *BusinessWeek Global 1000* and if it were based in the United States it would also be a member of the *Fortune 500*, both by revenues and by market capitalisation.

The rest of this letter is based on constant currency comparisons, which are more meaningful given the continued strength of sterling in 1999. Revenues and gross profits were up 12%. All our disciplines – advertising; media investment management (our new definition of media planning, buying and research); information and consultancy; public relations and public affairs; and branding and identity, healthcare and specialist communications – grew strongly but with greater growth outside advertising, so much so that non-advertising activities now account for 53% of revenues.

The same strength was seen geographically with double-digit growth in North America, the United Kingdom and Continental Europe but slower growth due to economic problems in Asia Pacific, Latin America, Africa and the Middle East.

Operating margins were up by 0.8% in excess of our objective of 0.6%. Productivity and efficiency again increased significantly as like-for-like revenues grew by over double the like-for-like increase of staff numbers of 3.2%.

As a result profit before interest and tax grew by almost 19% to £291 million. Pre-tax profits were up even more at over 20%. We generated £171 million of free cash flow, up over 25% over last year and which was more than absorbed by acquisition payments and investments of £262 million, share repurchases and cancellations of £18 million and dividends of £21 million. As a result average net debt rose to £206 million, compared to £155 million in 1998 at 1999 exchange rates, and the historical target range of £150-200 million. Your Board is prepared to increase net debt further to the range of £200-250 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 almost 20%.

2000 has started very well and should see similar improvements. After three months, revenues are up over 20% against a budget of more than 7%. Operating margins are on-budget which calls for an improvement of 0.6 margin points. 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 are as follows:

- First, to continue to raise operating margins to the level of the best performing competition, from 13.4% last year to 14% this year and to 15% by 2002. Is there life after 15%? Well, some single agencies achieve 20% and we believe there are better ways of doing things which we should explore. So there should be.
- Second, to increase the flexibility in our cost structure to cope with the recessions when they come. 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 almost 6% of revenues and we aim for 7-8%.

- Third, we have achieved our objective of de-leveraging the Company to average net debt of £150-200 million and interest cover of over seven times. Now we have 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 120-130% 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 tends 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 1999 we invested only £18 million here, but continue to be committed to a rolling annual buy-back programme of a recently increased amount of £100 million equivalent to approximately 1% of our share capital. Historical data seems to indicate that programmes 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, 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 adding-value areas that we have identified – human resources, property management, procurement, information technology and practice development. This work is done by a limited headcount of 100 or so parent company people in London and New York, with some support in Hong Kong and Mexico City.

In the human resources area we continue to develop our short-term and long-term incentive plans, our high performer 100 and 400 Clubs and 500 High Potential Group; our Worldwide Ownership Plan, Worldwide Partnership Program and Atticus Awards – our literary Oscars; our training and knowledge-sharing programmes and specialised seminars on creativity, retailing and interactive; our Marketing Fellowship Program; our Group directory, *Navigator* and newspaper *The WIRE*.

In property management we continue to implement the WPP Space Program which seeks to improve the return on our annual investment of $300 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 $75 million annual investment in hardware, software and information technology salaries.

Finally, in practice development we continue our ‘horizontal’ initiatives in 10 recently 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 or organic growth rate is lower. Over the last four years we have grown 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 significantly less conservative than ours).

Our objective is to move up to this level by better positioning our revenue portfolio in faster-growing functional areas. Perhaps the first quarter results for 2000 are indicative of some success, although one swallow does not make a summer. Our practice development initiatives are aimed at helping with this and acquisitions so far in 2000 – in strategic marketing consultancy, advertising, e-mail communications, new media, promotions and relationship marketing, e-business, healthcare, recruitment advertising, public relations, branding and identity, media research and internet communications – 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 66⅔% 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 Asia Pacific, Latin America, Central and Eastern Europe, Africa and the Middle East. Currently these areas account for over 17% 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, Conquest, Batey, MindShare, Research International, Millward Brown, Hill and Knowlton, Ogilvy Public Relations Worldwide, OgilvyOne Worldwide, CommonHealth and Enterprise IG – in high growth markets or where their market share is insufficient. In 1999 we tackled Argentina, Brazil, Chile, Czech Republic, France, Germany, Israel, Mexico, Netherlands, Poland, Scandinavia, Singapore, Spain, Taiwan, the UK and US. In 2000 there is more work to do in France, 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 26 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 Worldwide, Digital@JWT, Alexander Ogilvy, Blanc & Otus and MB Interactive. We will also invest directly in the new channels that still excite the financial markets despite recent volatility in values.

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 company MindShare 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 programmes; 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 organisations may become flabby, slow to respond, bureaucratic and sclerotic. Any sensible chairman or CEO would not want this to be the case. They would want both the benefits of size and scale with the responsiveness and energy of a smaller firm. For the first time new technologies enable this to be achieved more effectively and easily. WPP is no different. We want the scale and resources of the largest firm together with the heart and soul of a small one.

As a parent company, we are developing practical principles and policies for employee relations, 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 programmes in each of these areas. A summary of the Group's initiatives to date can be found on pages 89 and 95.

An annual report and accounts such as this, constrained as it is by laws and professional practices, can only hint at the real nature of our business.

It is, of course, an intensely personal business and an intensely creative business. Our many clients come to us for the brains and inventiveness of our people. Across all 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 thousands of such assignments are totalled up, and expressed as they must be in monetary terms, they deliver the numbers reported here. But numbers alone, however good in themselves, only poorly express the creativity, the applied discipline and the infinite diversity that make up your company.

So we would ask you now, as share owners, to look behind those numbers; to remember their origin; to recognise the 39,000 people who work for WPP companies and associates 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 excellent year: and not just in the ways that can be measured. We can – so far – say the same for the year 2000.

Hamish Maxwell
Chairman

Sir Martin Sorrell
Group chief executive

David Ogilvy

His monument thrives. Ogilvy & Mather Worldwide continues to exemplify the style, standards and professionalism first established fifty-two years ago by this titan among advertising people.
As we mark his death, we celebrate his life and his achievements.

23 June 1911 – 21 July 1999