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WPP

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2001

Revenue up almost 35% to £4.0 billion
Profit before tax, goodwill, investment gains and write-downs up almost 29% to £490 million
Diluted earnings per share on the same basis up almost 2% at 30.6p
Final dividend up 20% to 3.06p

- Revenue up almost 35% to £4.0 billion

- Profit before goodwill, interest, tax, investment gains and write-downs up almost 30% to £561.1 million

- Operating margins of 14.0%

- Profit before tax, goodwill, investment gains and write-downs up almost 29% at £489.8 million

- Diluted earnings per share pre-goodwill, investment gains and write-downs up almost 2% to 30.6p from 30.1p

- Final dividend up 20% to 3.06p per share making a total for the year of 4.50p up 20% over 2000

- Net new billings of over £1.6 billion ($2.5 billion)

- Objective to achieve revised fifth margin plan of 15% operating margin by 2002 and 15.5% by 2003

Summary of results

The Board of WPP Group plc ("WPP") announces the unaudited preliminary results for the year ended 31 December 2001. Despite very difficult trading conditions, particularly in the United States, these results represent record profits in the Company's sixteenth year.

Turnover was up almost 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 Young & Rubicam Inc. ("Y&R") constant currency revenue was up over 1%. On a like-for-like basis, excluding all acquisitions, revenue was down by 3.0% and gross profit was down 4.0% on 2000.

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. Pre-goodwill, operating margins (including income from associates) were 14.0% 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 16.0% from 17.9%, reflecting the impact of more difficult trading conditions and of the group's pay-for-performance compensation strategy. Reported operating costs including direct costs rose by over 39% and by over 37% in constant currency. However, in constant currency, like-for-like 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 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. Our actual staff numbers 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%.

Net interest payable and similar charges (including a notional charge for the early adoption of FRS17) increased to £71.3 million from £51.7 million (restated), reflecting increased profitability more than offset by debt acquired, the increased level of acquisition activity and share repurchases. Interest cover remains at the relatively conservative level of 7.9 times and at 8.3 times, excluding the FRS17 adjustment.

Profit before tax, investment gains and write-downs rose by almost 30% to £475.0 million from £365.7 million. 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, profits on this basis would have been £478.0 million.

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

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. However, 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 4.50p 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.

Further details of WPP's financial performance are provided in Appendix I (in sterling) and Appendix II (in euros).

<u>Review of operations</u>

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

Network television price inflation and declining audiences, fragmentation of traditional media and the rapid development of new technologies continued to drive experimentation by our clients in new media and non-traditional alternatives. 1998 was really the first year when WPP's marketing services activities represented over 50% of Group revenue. In 2001 these activities represented over 54% of Group revenue. In addition, in 2001, our narrowly defined internet-related revenue was over $300 million or over 5% of our worldwide reported revenue. This compares with approximately 3% for on-line media's share of total advertising spend in the United States and approximately 2% share worldwide. The new media continue to build their share of client spending.

Revenue and operating profit by region

The pattern of revenue growth differed regionally. The table below gives details of revenue and revenue growth (on a constant currency basis) by region for 2001 as well as proportions of operating profits:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 01/00	Operating profit as a % of Total Group
North America	44.3	32.8	47.5
United Kingdom	16.2	17.7	13.2
Continental Europe	22.2	46.7	21.3
Asia Pacific, Latin America, Africa & the Middle East	17.3	33.9	18.0
Total Group	100	33.0	100

Including Y&R, on a pro-forma combined basis, the proportion of revenue and revenue growth by region was as follows:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 01/00
North America	44.3	(3.7)
United Kingdom	16.2	2.5
Continental Europe	22.2	8.2
Asia Pacific, Latin America, Africa & the Middle East	17.3	5.8
Total Group	100	1.3

As can be seen, on a pro-forma combined basis, North America bore the brunt of the recession with the United Kingdom, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East less affected.

Net new billings of £1.6 billion ($2.5 billion) were won last year. The Group was ranked second in the net new business billings survey by Credit Suisse First Boston for 2001.

Revenue and operating profit by communications services sector and brand

The pattern of revenue growth also varied by communications services sector and brand. The table below gives details of revenue and revenue growth by communications services sector for 2001 (on a constant currency basis) as well as proportions of operating profits.

Communications services	Revenue as a % of Total Group	Revenue growth % +/(-) 01/00	Operating profit as a % of Total Group
Advertising, Media Investment Management	45.8	30.8	56.9
Information & Consultancy	14.9	14.4	10.3
Public Relations & Public Affairs*	12.3	49.3	8.6
Branding & Identity, Healthcare & Specialist Communications	27.0	43.1	24.2
Total Group	100	33.0	100

* The revenue figures submitted to the O'Dwyer Report reflect some public relations income which is included here in advertising and media investment management and branding and identity, healthcare and specialist communications. Total public relations and public affairs revenue grew over 42% to $802 million.

Including Y&R, on a pro-forma combined basis, the proportion of revenue and revenue growth by communications services sector was as follows:

Communications services	Revenue as a % of Total Group	Revenue growth % +/(-) 01/00
Advertising, Media Investment Management	45.8	0.3
Information & Consultancy	14.9	14.4
Public Relations & Public Affairs	12.3	(6.7)
Branding & Identity, Healthcare & Specialist Communications	27.0	0.6
Total Group	100	1.3

As can be seen, on a pro-forma combined basis, public relations and public affairs has been most affected by the recession. Branding & identity, healthcare and specialist communications was somewhat affected, with healthcare and direct, a part of specialist communications, being more resilient. Advertising and media investment management has been less affected than anticipated and information and consultancy continues to grow relatively strongly.

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 United States 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 and Partners in the United States.

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, probably to be named GME, but these have been revised following the merger with Tempus Group PLC ("Tempus") and the subsequent formation of Mediaedge:CIA, resulting in the development of a second strong 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. The quality of our operations in Europe will be enhanced with the integration of Outrider, Tempus' digital operation.

Information and Consultancy

Despite the recession, the Group's information and consultancy businesses continued their strong revenue growth with gross profit rising by over 14% and operating margins up over the previous year, although 11 September 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 at Winona in the United States, in the United Kingdom, 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.

Public Relations and Public Affairs

In constant currencies, the Group's public relations and public affairs revenue showed continued growth, due to acquisitions, 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 and public affairs businesses as a whole declined to over 9% against over 13% in the previous year.

Branding and Identity, Healthcare and Specialist Communications

The Group's branding and 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 1.0 margin points, chiefly due to margin erosion at some of our branding and identity and specialist communications units.

Several of our companies in this sector performed particularly well:

- in promotion and direct marketing - Wunderman at the Irvine office in the United States, in the United Kingdom, Germany, China and Brazil; OgilvyOne in the United Kingdom, France, Spain, the Czech Republic, Singapore, Hong Kong, Korea and Argentina
- in branding and identity - BPRI, Banner McBride, Warwicks, Landor Associates in the United Kingdom, Germany, Japan, Hong Kong and Mexico
- in healthcare - CommonHealth in the United States; Sudler & Hennessey in Germany and Australia; MarketForce Communications in Canada; Transart Marketing in the United Kingdom
- other specialist marketing resources - Glendinning in the United Kingdom, the Geppetto Group and Pace Communications

Despite difficult market conditions, all of our networks – OgilvyOne, Wunderman, Y&R2.1 and digital@jwt – grew their digital revenue and developed their capabilities, all in the context of increasingly integrated offers.

<u>Manufacturing</u>

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

<u>Balance sheet and cash flow</u>

An unaudited summary of the Group's consolidated balance sheet as at 31 December 2001 is attached in Appendix I (in sterling) and in Appendix II (in euros). 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 £56 million and other net cash inflows of £73 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £452 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. A summarised unaudited consolidated cash flow statement is included in Appendix I.

In the first five weeks of 2002 up until 6 February, the last date for which information is available prior to this announcement, net debt averaged £1,058 million versus net debt of £250 million for the same period last year at 2002 exchange rates.

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. 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 United States, the United Kingdom, Australia, Brazil, France, Portugal, South Africa, South Korea, Taiwan and Turkey; in information and consultancy in the United States, Germany and South Africa; in public relations and public affairs in the United States, Argentina and Switzerland; and in branding and identity in the United States, the United Kingdom and Japan; in direct in the United Kingdom, France and Hong Kong; and in interactive in the United States, the United Kingdom, France and South Korea.

As noted above, your Board has decided to increase the final dividend by 20% to 3.06p per share, taking the full year dividend to 4.50p per share which is almost seven times covered. In addition, as current opportunities for cash acquisitions may be limited particularly in the United States, 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 2.0-2.5% of the Company's share capital which is perceived to have a more significant impact in improving share owner value than dividends.

Developments in 2001

Including associates, the Group had over 65,000 full-time people in over 1,400 offices in 103 countries at the year end. It services over 300 of the Fortune Global 500 companies, over one-half of the Nasdaq 100, over 30 of the Fortune e-50, and approximately 330 national or multi-national clients in three or more disciplines. More than 150 clients are served in four disciplines. The Group also works with over 100 clients in six or more countries.

These statistics reflect the increasing opportunities for developing client relationships between activities nationally, internationally and by function. The Group estimates that 25% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies.

Future prospects

Given the current state of the world economy, your Group has performed well. In essence, despite a fall in like-for-like revenue, operating margins and absolute levels of operating profitability have been broadly maintained. As the Group forecasted the general decline in economic conditions relatively early, the consequent focus on the staff cost to revenue ratio has resulted in a fall in average headcount by almost 2% and point-to-point headcount by 9%. This has been achieved, in part, by a slowdown in recruitment and the impact of the normal attrition rate.

Continued progress has been made over the last nine years during which pre-tax profits have increased almost nine times from £54 million in 1993 to £85 million in 1994, £114 million in 1995, £153 million in 1996, £177 million in 1997, £213 million in 1998, £255 million in 1999, £366 million in 2000 and £475 million (pre investment gains and write-downs) in 2001. Over the same period operating margins (including income from associates) have doubled from 7.0% to 14.0%, and interest cover has increased from 3.0 times in 1993 to 7.9 times in 2001 giving credit ratings of A- and Baa1.

However, there is still a 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 parent company margin of 14.0% 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 and consultancy and branding and 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.

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 United States. Despite the usual inflexibility of property costs, approximately one million square feet of the Group's property portfolio is up for renewal in the United States in the next two years.

Achievement of "best practice" competitive operating margins and our targets in just our advertising and media investment management and public relations and public affairs businesses at current pro-forma revenue levels, would generate approximately £20-30 million of additional annual operating profits.

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 by comparables. 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 and consultancy, healthcare and direct. This compares with budgeted growth of 6% in 1998 against like-for-like outcome of almost 8%, growth of over 4% and almost 8% in 1999, growth of 10% and 15% in 2000 and growth of 7% and a decline of 3% in 2001. We only have data for January in 2002, and this shows revenue approximately in line with budget. Net new business billings so far in 2002 were very strong with over $600 million of wins and the Group was ranked first in the new business survey by Credit Suisse First Boston in January.

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.

In the short-term, therefore, advertising and marketing services expenditure will likely remain flat, although spending amongst the package goods, pharmaceutical, oil and energy, government (the government is the largest advertiser in the UK market) and price-value retail sectors has remained relatively resilient. These sectors represent approximately 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.

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-operation.

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 15.0% 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.

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.

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. 2003 may be slightly better.

Our people have responded magnificently in 2001 to the difficult economic, political, financial, personal, emotional and psychological challenges 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.

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