WPP Preliminary Results for the Year Ended 31 December 2002
24 February 2003

Revenue down almost 3% to $5.9 billion (£3.9 billion)
Profit before tax, goodwill and impairment, fixed asset gains, investment write-downs and FRS17 interest down almost 19% to over $602 million (£401 million)
Diluted headline earnings per share down over 19% at 37.4 ¢ (24.9p)
Final dividend up 20% to 5.52 ¢ (3.67p) per share

- Revenue down almost 3% to $5.876 billion (£3.908 billion).
- Profit before goodwill and impairment, interest, tax, fixed asset gains and investment write-downs down over 14% to $722.0 million (£480.2 million).
- Operating margins of 12.3%.
- Profit before tax, goodwill and impairment, fixed asset gains, investment write-downs and FRS17 interest down almost 19% to $602.3 million (£400.6 million).
- Profit before tax down 50% to $308.8 million (£205.4 million).
- Diluted headline earnings per share down over 19% to 37.4 ¢ (24.9p) from 46.5 ¢ (30.9p).
- Final dividend up 20% to 5.52 ¢ (3.67p) per share making a total for the year of 8.12 ¢ (5.40p) up 20% over 2001.
- Strong estimated net new billings of over $3.6 billion (£2.4 billion). Ranked top on absolute net new billings won in 2002.

In this press release not all of the figures and ratios used are readily available from the unaudited preliminary results included in Appendix I. Where required, details of how these have been arrived at are shown in Appendix IV.

Summary of results
The Board of WPP Group plc (“WPP”) announces the unaudited preliminary results for the year ended 31 December 2002. Despite very difficult trading conditions throughout the world, these results reflect the achievement of balancing the market pressure on revenues against reducing costs.

Reportable revenue was down almost 3% to $5.876 billion (£3.908 billion). Revenues including associates are estimated to total $6.983 billion (£4.644 billion). On a constant currency basis, revenue was up 0.7% and gross profit up 0.9%. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were down 5.9%. Over the four quarters of 2002, likefor-like revenues have fallen by decreasing amounts - more than -9% in quarter one, -8% in quarter two, more than -3% in quarter three and less than -3% in quarter four. In quarter four, North America showed revenue growth for the first time for seven quarters of almost 2%.
Profit pre-goodwill and impairment, interest, tax, investment gains and write downs was down 14.4% to $722.0 million (£480.2 million) from $843.7 million (£561.1 million) and down almost 12% in constant currencies. Pre-goodwill and impairment, reported operating margins (including income from associates) fell to 12.3% from 14.0%. Excluding income from associates, reported operating margins fell less, by 1.4% from 12.9% to 11.5%. Post goodwill and impairment, reported profit before interest, tax, investment gains and write-downs was down 44% to $454.8 million (£302.5 million) from $821.4 million (£546.3 million).

Before incentive payments totalling $135.5 million (£90.1 million) or over 16% (under 14% in 2001) of operating profit before bonuses, taxes and income from associates, operating margins fell to 13.8% from 14.9%, reflecting stronger performance of some operating units against last year and increased provision for the LEAP senior management incentive programme, due to stronger than anticipated WPP total shareholder return against the peer group. Reported operating costs including direct costs fell by almost 1%, but rose by almost 3% in constant currency. However, like-for-like total operating and direct costs were down 4.6% on the previous year. Staff costs excluding incentives were flat, as were total salaries. Non-staff costs rose as a proportion of revenues, primarily reflecting the “lumpiness” of property costs as capacity is reduced.

On a reported basis the Group’s staff cost to gross margin ratio, excluding severance and incentives, increased slightly to 56.9% from 56.6%. Variable staff costs as a proportion of total staff costs have increased over recent years, reaching 12.1% in 2000. The impact of the recession in both 2001 and 2002 has reduced this ratio to 9.2% and variable staff costs as a proportion of revenue to 5.3%. This highlights the benefits of the increased flexibility in the cost structure. Actual people numbers averaged 50,417 against 50,487 in 2001, down marginally. On a like-for-like basis, average headcount was down to 50,417 from 55,109, a decrease of over 8%. At the end of 2002 staff numbers were 49,439 compared with 52,670 at the end of 2001 on a pro-forma basis, a reduction of over 6%. Headcount numbers have been falling by approximately half of one percent per month.

Net interest payable and similar charges (including a charge for the early adoption of FRS17) increased to $129.9 million (£86.4 million) from $107.2 million (£71.3 million), reflecting lower cash generated from operations, the full year impact of the increased level of acquisition activity in 2001 and share repurchases and cancellations in the current year. Headline interest cover remains at the relatively conservative level of almost six times and at six times, excluding the FRS17 charge.

Profit before tax, investment gains and write-downs fell by over 44% to $454.8 million (£302.5 million) from $821.4 million (£546.3 million). On a constant currency basis, pre-tax profits were down almost 43% reflecting the strengthening of sterling against the dollar, counterbalanced to some extent by its weakness against the euro. If sterling had stayed at the same average levels as 2001, profits on this basis would have been $473.9 million (£315.2 million).
The Group’s tax rate on headline profits was 26%, down from 27% in the previous year, reflecting the impact of further improvements in tax planning. Diluted headline earnings per share were down over 19% at 37.4 ¢ (24.9p). In constant currency, earnings per share on the same basis were down under 16%.

All severance and restructuring costs have been included in operating profits.
Following the collapse in technology equity valuations in 2001, it was considered prudent to write down the net balance sheet value of the Group’s investments in this area by $106.5 million (£70.8 million). 2002 has seen further declines in these technology investments, many of which are in private companies. An additional write-down of $29.9 million (£19.9 million) has been taken in 2002, mitigated by gains on asset disposals of $13.8 million (£9.2 million). The carrying value of these investments is now written down to $31.1 million (£19.3 million). In addition, a further $219.1 million (£145.7 million) was taken as an impairment charge primarily reflecting accelerated amortisation of goodwill on first generation businesses which have suffered in the recession. This additional charge represents 3.2% of the goodwill shown in the balance sheet at the start of 2002.
As a result, profit before tax fell 50% to $308.8 million (£205.4 million) and diluted earnings per share by almost 68% to 11.6 ¢ (7.7p).
The Board recommends an increase of 20% in the final dividend to 5.52 ¢ (3.67p) per share, making a total of 8.12 ¢ (5.40p) per share for 2002, a 20% increase over 2001. The record date for this dividend is 6 June 2003, payable on 7 July 2003. The dividend for 2002 is four and a half times covered by headline earnings.
Further details of WPP’s financial performance are provided in Appendix I (in sterling) and Appendix II (in euros).

As indicated previously, WPP intends to expense the cost of executive options in its income statement. Under United Kingdom GAAP, there is no definitive guidance on how this is to be implemented. However, Note 15 in Appendix I details the impact of expensing executive options using a Black Scholes valuation model and applying United States transitional guidelines contained in FAS 148. On this basis, only executive options issued in 2002 would be expensed in that year. As options granted are weighted towards the second half of the year, the resulting reduction in headline earnings per share would have been only 0.6 ¢ (0.4p). Fully expensing all executive options granted over the last three years on a consistent basis would reduce headline earnings per share by approximately 7%. Appendix III shows a pro-forma unaudited income statement for 2002, on the basis of adopting United States transitional guidelines.