WPP 2002 Interim Results
20 August 2002

Revenue down almost 2% to $2.83 billion (£1.96 billion)

Constant currency revenues flat

Profit before tax, goodwill and impairment down almost 17% to $303.8 million (£210.4 million)

Diluted headline earnings per share down 12% at 19.1c (13.2p)

Interim ordinary dividend up 20% to 2.50c (1.73p) per share

- Revenue down almost 2% to $2.83 billion (£1.96 billion) and flat in constant currencies
- Profit before interest, tax, goodwill and impairment down almost 11% to $366.7 million (£253.9 million) and down over 9% in constant currencies
- Operating margin pre-goodwill and impairment of 13.0%
- Profit before tax, goodwill and impairment down almost 17% to $303.8 million (£210.4 million) and down over 15% in constant currencies
- Diluted headline earnings per share down 12% to 19.1c (13.2p) from 21.6c (15.0p) and down 7% in constant currencies
- Interim ordinary dividend up 20% to 2.50c (1.73p) per share
- Net new business billings of almost $1.8 billion (£1.2 billion). Ranked number two advertising and marketing services group for the first five months of 2002

Summary of Results

The Board of WPP announces its results for the six months ended 30 June 2002, which reflect the continuing difficult economic conditions, particularly in the United States.

Turnover was down 2.0% to $12.7 billion (£8.78 billion) in the first six months of 2002.

Reportable revenue down 1.9% at $2.83 billion (£1.96 billion).

On a constant currency basis revenue was flat compared with last year. Excluding all acquisitions, constant currency revenues were down over 8%.

Profit before interest, tax, goodwill and impairment was down 10.8% to $366.7 million (£253.9 million) from $409.9 million (£284.7 million) and down 9.4% in constant currencies.

Pre-goodwill and impairment, reported operating margins fell to 13.0% from 14.3%.

On the same basis, before short-term and long-term incentives, operating margins fell to 14.4% from 16.3%. Short and long-term incentives amounted to $39 million (£27 million) or 9.8% of operating profits before bonus and taxes.

The Group's staff cost to revenue ratio, including severance costs, improved 0.1 margin points to 57.0% in the first half of 2002, compared with the same period last year. On a like-for-like basis the average number of people in the Group was 50,909 in the first half of the year, compared to 56,134 in 2001, a decrease of over 9%. On a like-for-like basis, the total number of people in the Group at the half-year end was 50,582, compared to 52,238 at the end of 2001, a decrease of over 3% and compared to 55,393 in June 2001, a decrease of almost 9%.
Net interest payable and similar charges (including a notional charge of $3.6 million (£2.5 million) for FRS17) increased to $62.8 million (£43.5 million) from $46.2 million (£32.1 million), reflecting lower interest rates more than offset by the impact of share repurchases and acquisitions.

Reported profit before tax fell by almost 30% to $250.8 million (£173.7 million) from $356.8 million (£247.8 million). In constant currency pre-tax profits fell by over 29%.
The tax rate on profit on ordinary activities, before impairment, reduced to 27% compared with 30% last year, reflecting the impact of further improvements in tax planning.
Profits attributable to ordinary share owners fell by over 31% to $165.1 million (£114.3 million) from $240.9 million (£167.3 million).

Diluted earnings per share before goodwill and impairment, or headline earnings per share, fell 12.0% to 19.1c (13.2p) from 21.6c (15.0p). In constant currency, earnings per share on the same basis fell 7%.

The Board declares an increase of 20% in the interim ordinary dividend to 2.50c (1.73p) per share. The record date for this interim dividend is 13 September 2002, payable on 18 November 2002.

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 clear guidance on how this can be implemented. However, Note 13 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 123. On this basis, executive options issued would only be expensed from the beginning of this year. As few options have been granted over the first half of this year, the resulting reduction in headline earnings per share would be less than 1%. Fully expensing all executive options granted over the last three years would reduce headline earnings per share by approximately 5% to 18.2c (12.6p). Appendix III shows a pro-forma unaudited income statement for the first half of 2002, on the basis of adopting United States transitional guidelines.

Review of Operations

Revenue by Region
The pattern of revenue growth differed regionally. The table below gives details of the proportion of revenue and revenue growth (on a constant currency basis) by region for the first six months of 2002:

Region	Revenue as a % of total Group	Revenue growth% 02/01
North America	44.7	- 6.3
United Kingdom	16.3	3.9
Continental Europe	22.7	7.6
Asia Pacific, Latin America, Africa & Middle East	16.3	3.3
TOTAL GROUP	100	- 0.3

As can be seen, North America has been most affected by the recession, with Continental Europe least affected. The United Kingdom and Asia Pacific, Latin America, Africa and the Middle East have also been less affected, although Latin America has become more so recently, given instability in Argentina.

Net new business billings of almost $1.8 billion (£1.2 billion) were won in the first half of the year. The Group was ranked second for net new business gains in the latest available Credit Suisse First Boston survey for the first five months of 2002.

Revenue by Communications Services Sector and Brand

The pattern of revenue growth varied by communications services sector and company brand. The table below gives details of the proportion of revenue and revenue growth by communications services sector (on a constant currency basis) for the first six months of 2002:

Communications Services	Revenue as a % of total Group	Revenue growth% 02/01
Advertising, Media Investment Management	45.8	0.5
Information & Consultancy	15.3	6.8
Public Relations & Public Affairs*	11.8	-11.2
Branding & Identity, Healthcare & Specialist Communications	27.1	0.1
TOTAL GROUP	100	- 0.3

* 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 revenues fell over 13% to $361.5 million.

As can be seen, public relations and public affairs have continued to be most affected by the recession. Advertising and media investment management and branding and identity, healthcare and specialist communications have been less affected and information and consultancy continues to be least affected.

Advertising and Media Investment Management

On a constant currency basis, combined revenue at Ogilvy & Mather (including OgilvyOne), J Walter Thompson Company, Y&R Advertising, Red Cell, MindShare and mediaedge:cia fell by over 2%, with operating margins down.

These businesses generated net new business billings of $1.3 billion (£884 million).

Information and Consultancy

The Group's information and consultancy businesses continued their growth, despite global economic conditions, with revenues increasing by almost 7%, but operating margins were down, as the recession started to have some impact.

Public Relations and Public Affairs

In constant currencies, the Group's public relations and public affairs revenues fell by over 11%. The continuing recession has affected this sector the most, particularly in the United States, reflecting the slowdown in technology, media and telecommunications in particular. Operating margins, however, began to improve.

Branding and Identity, Healthcare and Specialist Communications

The Group's branding and identity, healthcare and specialist communications revenues were up slightly over last year with operating margins down over one margin point. Particularly good performances were registered by several companies in this sector in the first half, including, in promotion and direct marketing by EWA, High Co, Imaginet, Mando Marketing, Maxx Marketing, The Grass Roots Group and VML; in branding and identity by CB'a and MJM Creative; in healthcare by CommonHealth; and in specialist marketing services by Forward, The Bravo Group and The Geppetto Group.

Cashflow and Balance Sheet

A summary of the Group’s cashflow statement and balance sheet and notes as at 30 June 2002 are provided in Appendices I and II.

In the first half of 2002, operating profit was $290 million (£201 million), depreciation, amortisation and impairment $139 million (£96 million), interest paid $62 million (£43 million) and tax paid $64 million (£44 million). This resulted in net cash generation of $303 million (£210 million) for the first six months of 2002, (excluding a comparative improvement in working capital) compared to $367 million (£255 million) in the comparable period last year. The Group invested $49 million (£34 million) in capital expenditure, $290 million (£201 million) (of which $159 million (£110 million) was for initial acquisition payments and $65 million (£45 million) was for earnout payments and the balance related to prior year loan note redemptions) in net cash acquisition payments and investments and $98 million (£68 million) in share repurchases and dividends, a total outflow of $438 million (£303 million).

For the twelve months ended 30 June 2002 the net cash generation was $667 million (£462 million) which was invested in capital expenditure of $130 million (£90 million), cash acquisition payments and investments of $900 million (£623 million) and share repurchases and dividends of $209 million (£145 million), a total expenditure of $1,239 million (£858 million). Net debt averaged $1,694 million (£1,173 million) for the twelve months ended 30 June 2002, versus $848 million (£589 million) for the comparable period ended 30 June 2001. Primarily due to acquisition payments last year, on 30 June 2002 net bank borrowings were $1,772 million (£1,160 million), against $875 million (£620 million) on 30 June 2001.

The Board continues to examine ways of deploying the Group’s substantial cashflow of approximately $578 million to $722 million (£400 million to £500 million) per annum to enhance share owner value given that interest cover remains strong at over five times. As necessary capital expenditure normally approximates to 1-1.2x the depreciation charge, the Company has continued to concentrate on examining possible acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

In the first half of 2002, acquisitions have been completed in advertising and media investment management in the United Kingdom, China and Finland; in information and consultancy in the United States, Ireland and Thailand; in public relations and public affairs in Australia, Japan and Taiwan; in sports marketing in Germany.

In addition to increasing the interim dividend by 20% to 2.50c (1.73p) per share, at a total cost of $28.9 million (£20.0 million) compared to $23.6 million (£16.4 million) last year, the Company has continued its rolling share buy-back programme in the first half of the year by repurchasing 10.75 million shares at an average price of $9.13 (£6.32) per share and total cost of $98 million (£68 million). The Company’s objective remains to buy-back approximately $217 million – $289 million ((£150 million – £200 million) of shares each year, currently equivalent to 3-3½% of the ordinary share capital.

Client Developments in the First Half of 2002

Including associates, the Group currently employs over 64,000 full-time people in over 1,400 offices in 103 countries. 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 333 national or multi-national clients in three or more disciplines. This reflects the increasing opportunities for co-ordination between activities both nationally and internationally. The Group also works with well over 100 clients in 6 or more countries.

The Group estimates that more than 20% of new assignments in the first half of the year were generated through the joint development of opportunities by two or more Group companies.

Current Progress and Future Prospects

The Group's financial performance in the first half of the year mirrored the difficult economic conditions. Like-for-like revenue decline in the first half of 2002, of over 8% (July like-for-like revenues were down over 4%), exceeded the budgeted decline of almost 5%. However, a pre-goodwill and impairment operating margin of 13% was achieved, better than a budgeted 12.5%, due principally to the reduction in and the variability of staff costs.

Functionally, information and consultancy and advertising and media investment management continued to be less affected, although information and consultancy has been affected more recently. Public relations and public affairs, branding and identity, healthcare and specialist communications have been most affected, although some branding and identity, direct and healthcare operations have held up better and public relations and public affairs have started to improve their operating margins.

The recession, which seemed to start in the United States in the fourth quarter of 2000, has now been in existence for almost two years. It was materially heightened by the tragic events of 11 September 2001, almost a year ago. Given the impact of the terrorist attack in New York on the second half of last year, most people felt that the second half of this year would witness an improvement in general market conditions, particularly given easier comparative figures. Recent stockmarket declines in the past few months have heightened concerns about corporate profitability and consumer confidence and have raised the possibility of an economic "double-dip". It has become apparent that any significant improvement could be delayed still further and that even improvements in comparative performance could be relatively mild. It seems unlikely that significantly improved performance will occur in 2002 and that any recovery will have to await 2003 or, perhaps, even more likely 2004, when the US Presidential Election and the Athens Olympics will begin to have a positive effect, at least on media markets. Given these conditions, even achieving last year's operating margins of 14% in 2002 will be difficult.

Plans, budgets and forecasts of revenues will continue to be made on a conservative basis and considerable attention is still being focused on achieving margin and staff cost to revenue or gross margin targets. Margins continue to be strong in important parts of the business. For example, the combined operating margins of our advertising and media investment management sector, are still almost 16%. Geographically, North American operating margins are also 16%. In addition to influencing absolute levels of cost, the initiatives taken by the parent company in the areas of human resources, property, procurement, information technology and practice development continue to improve the flexibility of the Group's cost base. This has become increasingly important as economic activity stalls.

The Group continues to improve co-operation and co-ordination between companies in order to add value to our clients' businesses and our people's careers, an objective which has been specifically built into short-term incentive plans. Particular emphasis and success has been achieved in the areas of media investment management, healthcare, privatisation, new technologies, new markets, retailing, internal communications, hi-tech, financial services and media and entertainment.

The Group continues to concentrate on its strategic objectives of improving operating profits by 10-15% per annum; improving operating margins by half to one margin point per annum or more depending on revenue growth; improving staff cost to revenue or gross margin ratios by 0.6 margin points per annum or more depending on revenue growth; converting 25-33% of incremental revenue to profit and growing revenue faster than industry averages and encouraging co-operation among Group companies.

In addition to introducing greater flexibility into its cost structure, the Group is competitively well positioned to weather current economic uncertainty because of its strong and stable financial position, its geographic spread, its consistent new business record and its competitive strength in information and consultancy, public relations and public affairs, branding and identity, healthcare and specialist communications - particularly as clients decide to spend an increasing proportion of their marketing budgets on “below-the-line” activities.