WPP Preliminary Results 2001
February 2002

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).