Third Quarter 2001 Results
25 October 2001

Reported revenues up over 56% in first nine months

Combined WPP & Y&R constant currency revenues up over 2% in same period

Like-for-like revenues flat in same period

Third quarter reported revenues up almost 41%

2001 operating margin target very difficult to achieve after including impact of exceptional revenue losses and costs

Revenue Growth

In the first nine months of 2001, reported revenues were up over 56%, primarily reflecting the contribution of Young & Rubicam, Inc. (“Y&R”) and other acquisitions and the strength of the dollar and major Continental European currencies against sterling. In constant currencies, revenues were up over 52% in the first nine months. Combined WPP and Y&R constant currency revenues were up over 2% and on a like-for-like basis, excluding all acquisitions and currency fluctuations, revenues were flat.

As shown in the appendix to this release, on a constant currency basis, the geographical pattern of revenue growth varied in the first nine months. In North America, revenues were up almost 52%. In Europe, the UK was up over 27% and Continental Europe up over 78%. Asia Pacific, Latin America, Africa and the Middle East grew over 55%. On a combined WPP and Y&R constant currency basis, North America was down over 3%. In Europe, the UK was up over 4% and Continental Europe up over 10%, Asia Pacific, Latin America, Africa and the Middle East grew almost 9%.

By communications services sector, advertising and media investment management was up almost 53%, information and consultancy up over 11%, public relations and public affairs up over 90% and branding and identity, healthcare and specialist communications up over 70%. Again on a combined WPP and Y&R constant currency basis, advertising and media investment management was up almost 3%, information and consultancy up over 11%, public relations and public affairs down almost 5% and branding and identity, healthcare and specialist communications up almost 1%.

In the third quarter, reported revenues grew almost 41%, with constant currency revenues up over 41% reflecting the weakness of the dollar. Combined WPP and Y&R constant currency revenues declined over 3% mainly reflecting the impact of the tragic events on 11 September 2001 and subsequent developments in the United States. On a like-for-like basis, excluding acquisitions and currency fluctuations, revenues fell by over 6%.

As shown in the appendix to this release, on a constant currency basis, the geographical pattern of revenue growth varied in the third quarter. In North America, revenues were up almost 38%. In Europe, the UK was up over 26% and Continental Europe up over 63%. Asia Pacific, Latin America, Africa and the Middle East grew over 42%. On a combined WPP and Y&R constant currency basis, North America was most affected with revenue down over 11%. Revenue growth in the UK was almost 3% with Continental Europe up over 4%. Asia Pacific and Latin America were up over 1%.

By communications services sector, advertising and media investment management was up almost 43%, information and consultancy up over 5%, public relations and public affairs up over 63% and branding and identity, healthcare and specialist communications over 60%. Again on a combined WPP and Y&R constant currency basis, information and consultancy was up over 5%. Advertising and media investment management fell by 3%, public relations and public affairs fell over 15% and branding and identity, healthcare and specialist communications fell over 4%.

Net new business billings of £390 million ($600 million) were won during the third quarter, making a total of £1.3 billion ($2.0 billion) for the first nine months. The Group continues to benefit from consolidation trends in the industry, winning several large assignments from existing and new clients. The Group was ranked first for net new business gains in the Credit Suisse First Boston survey for the first nine months of 2001.

Current Trading

The lack of organic revenue growth in the third quarter and so far this year continues to reflect the sharp deceleration in the growth rate of the world economy, that seems to have started in the United States in the fourth quarter of 2000. The impact of this slowdown initially impacted the technology, media and telecommunications sectors of the economy, although there is some spill over into the “old” economy. This deceleration has been further materially affected by the tragic events of 11 September and beyond in the United States, the effects of which are being felt throughout the world.

So far, by region, it has most materially affected North America, with proportionately less though material impact on the UK and Continental Europe and proportionately even less though material impact on Asia Pacific and Latin America.

By communications services sector, it has impacted public relations and public affairs the most, branding and identity, healthcare and specialist communications next, advertising and media investment management less so, and information and consultancy the least.

As a result our operating companies continue to review their costs closely and make adjustments where necessary. On a pro-forma basis, the total number of people in the Group (excluding associates) has fallen almost 6% from 52,980 on 1 January 2001 to 49,834 on 30 September 2001. However, the average headcount is up 1% at 50,727 in the first nine months of 2001 from 50,273 in the same period last year.

WPP estimates that the impact of the events of 11 September and beyond on the last three weeks of that month alone reduced revenues by at least $30 million, without any opportunity to reduce operating costs. If the last three months of the year were impacted in the same way like-for-like revenues for the whole of 2001 could be down 2%.

Third quarter revised forecasts for the year indicate that it will be very difficult to achieve the Group’s operating margin objective of 15% in 2001 on a “clean” basis – that is including the impact of exceptional revenue losses and operating costs. However, the position would be different, if the impact of the events of September and beyond is excluded as exceptional items, as some companies within and outside our sector are doing or planning to do. Operating margins after exceptional revenue losses and costs are likely to be similar to last year.

Balance Sheet and Cash Flow

The Group continues to implement its strategy of using free cash flow to enhance share owner value through a combination of strategic acquisitions and share purchases.

In the third quarter of 2001 the Group completed acquisitions in advertising and media investment management in Finland; in information and consultancy in France and Puerto Rico; in public relations and public affairs in France; and in branding and identity, healthcare and specialist communications in the United States.

6.3 million WPP shares were purchased during the third quarter at an average price of £5.60 per share and total cost of over £35 million. In the first nine months of 2001 the Group has purchased 15.3 million WPP shares at an average price of £6.88 per share and total cost of £105.3 million. The rolling buy-back program continues at an increased target level of £150 to £200 million per annum, equivalent to approximately 2% of the current market capitalisation.

Net debt averaged £757 million for the first nine months of 2001 (including Y&R’s convertible debt of £195 million) compared to £389 million in the same period in constant currency (which excluded the Y&R convertible) and to a market capitalisation of approximately £6 billion. This reflects £787 million spent on capital expenditure, acquisitions, share purchases and dividends in the previous 12 months. Free cash flow over the same period was £440 million. The Group has now achieved A – ratings with Standard & Poor's and Fitch, and Baa 1 at Moody's.

Future Objectives

The Group continues to focus on its key objectives of improving operating profits and margins, increasing cost flexibility (particularly in the areas of staff and property costs), using free cash flow to enhance share owner value, continuing to develop the role of the parent company in adding value to our clients and people, developing our portfolio in high revenue growth, geographical and functional areas and improving our creative quality and capabilities.