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WPP

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

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") (NASDAQ: WPPGY) 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, like-for-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.

Review of operations

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.

The recession continued into 2002, when advertising and marketing services expenditure was probably down again in the low single digits and the downturn has now continued for over two years. The tragic events of 11 September 2001 had a material negative impact on the second half of 2001 and many people (ourselves included) felt that the second half of 2002 might see a relative improvement, particularly given easier comparative figures. However, further stock market nervousness in the third quarter of 2002 raised additional concerns about corporate profitability, consumer confidence and a possible economic “double-dip”, producing a “dead-cat” bounce.

While, as mentioned above, the Group has seen a reduction in the rate of decline in each quarter of 2002, with the United States exhibiting revenue growth in the fourth quarter of 2002 for the first time in almost two years, the possibility of an Iraqi conflict has increased levels of uncertainty. As a result, 2003 will likely be another difficult year, with hopes for a more significant recovery being pinned on 2004 and the positive impact of quadrennial factors such as the United States Presidential Election, political advertising in the United States pushing up media rates, the Athens Olympics and the European Football Championships.

Network television price inflation and declining audiences, fragmentation of traditional media and 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 2002 these activities represented over 53% of Group revenue, a little less than 2001, as advertising and media investment management revenues were more robust than anticipated. In addition, in 2002, our narrowly defined internet-related revenue was over $300 million or over 2% of our worldwide reported revenue. This compares with

approximately 5% for on-line media's share of total advertising spend in the United States and approximately 3% 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 2002 as well as proportions of operating profits:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 02/01	Operating profit as a % of Total Group
North America	44.0	-2.4	50.7
United Kingdom	15.8	-1.3	13.9
Continental Europe	23.1	5.3	20.3
Asia Pacific, Latin America, Africa & the Middle East	17.1	4.7	15.1
Total Group	100.0	0.7	100.0

As can be seen, North America and the United Kingdom have been most affected by the recession, with Continental Europe and Asia Pacific, Latin America, Africa and the Middle East least affected.

Estimated net new billings of $3.6 billion (£2.4 billion) were won last year. The Group was ranked first in the absolute net new business billings survey by Credit Suisse First Boston for 2002 and second as a proportion of advertising and media investment management revenues.

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 2002 (on a constant currency basis) as well as proportions of operating profits:

Communications services	Revenue as a % of Total Group	Revenue growth % +/(-) 02/01	Operating profit as a % of Total Group
Advertising, Media Investment Management	46.5	2.5	57.4
Information & Consultancy	15.3	4.0	8.9
Public Relations & Public Affairs	11.4	-8.0	9.7
Branding & Identity, Healthcare & Specialist Communications	26.8	-0.2	24.0
Total Group	100.0	0.7	100.0

As can be seen, public relations and public affairs continued to be 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 has continued to see some limited growth, although it has been increasingly affected by the recession.

Advertising and Media Investment Management

In constant currencies, this sector's revenue grew by 2.5% last year. The combined operating margin (including income from associates) of this group of companies (Ogilvy & Mather Worldwide, J Walter Thompson Company, Y&R Advertising, Red Cell, MindShare and Mediaedge:cia) was over 15%.

In 2002, Ogilvy & Mather Worldwide generated estimated net new billings of $221 million (£147 million), J Walter Thompson Company $802 million (£534 million), Y&R Advertising $319 million (£212 million). Red Cell, which has been strengthened significantly by the addition of new talent, the acquisition of Berlin Cameron and Partners in the United States and the increase in the shareholding in the Batey Group in Asia Pacific, generated estimated net wins of $78 million (£52 million) excluding the recent assignment of Coca-Cola Classic in the United States.

Also in 2002, MindShare and Mediaedge:cia generated estimated net new billings of $1,512 million (£1,007 million). Plans continue to be developed to form a worldwide "WPP Media" parent company, probably to be named GMEC and will be implemented shortly.

Information and Consultancy

Although the recession has increasingly impacted the Group's information and consultancy businesses, on a constant currency basis revenues grew 4% in 2002, partly driven by acquisition. Like-for-like revenues were still down less than 1%. Despite this overall top line performance, revenues, operating profit and operating margins came under pressure, particularly at Center Partners and Research International.

However, strong performances were recorded by Millward Brown at Greenfield Consulting in the United States, the United Kingdom, IMS in Ireland, MFR and Millward Brown in France, Spain, China and Brazil; and by Research International in Australia, Japan, Singapore, Taiwan, Thailand and South Africa.

Public Relations and Public Affairs

In constant currencies, the Group's public relations and public affairs revenue continued to be most affected by the recession, particularly in technology, media and telecommunications, declining by 8%. Burson-Marsteller, Ogilvy Public Relations Worldwide, Robinson Lerer & Montgomery in the United States, and Finsbury and Buchanan in the United Kingdom performed well.

Following the decline in revenues in 2001, and 2002, the public relations and public affairs businesses reduced their costs significantly and as a result operating margins before associates improved by over one margin point in 2002.

Branding and Identity, Healthcare and Specialist Communications

Again in constant currencies the Group's branding and identity, healthcare and specialist communications revenues were flat compared with 2001.

Several of our companies in this sector performed particularly well:

- in promotion and direct marketing – Wunderman in New York, Chicago and San Francisco in the United States, in Canada, in the United Kingdom, France, Germany, Italy, the Netherlands, Spain and Chile: OgilvyOne in Belgium, France, Germany, Spain, India, Japan, Singapore, Thailand and Mexico.
- in branding and identity – Landor Associates in New York and Cincinnati in the United States; Walker Group and MJM Creative Services in the United States: Lambie-Nairn in the United Kingdom and icon brand navigation in Germany.
- in healthcare – CommonHealth in the United States, Sudler & Hennessey in the United States, MarketForce Communications in Canada, Italy and Melbourne, Australia
- other specialist marketing resources – The Geppetto Group, Management Ventures, Savatar and VML in the United States and The Forward Group, Glendinning and EWA in the United Kingdom.

Manufacturing

Gross profit was down significantly with operating profit and margins similarly impacted at the Group's manufacturing division.

Balance sheet and cash flow

An unaudited summary of the Group's consolidated balance sheet as at 31 December 2002 is attached in Appendix 1 (in sterling) and in Appendix II (in euros). As at 31 December 2002, the Group's net debt fell to $1,170 million (£727 million) compared with $1,425 million (£885 million) at 31 December 2001 (2001 - $1,438 million (£893 million) on the basis of 2002 year end exchange rates), following net cash expenditure of $421 million (£280 million) on acquisitions (including $141 million (£94 million) of loan note redemptions) and $114 million (£76 million) on share repurchases.

Net debt averaged $2,019 million (£1,343 million) in 2002, up $765 million (£509 million) against $1,254 (£834 million) in 2001 (up $783 million (£521 million) at 2002 exchange rates), primarily reflecting the full year impact of acquisitions made in 2001. These net debt figures compare with a current equity market capitalisation of approximately $7.1 billion (£4.4 billion), giving a total enterprise value of approximately $9.2 billion (£5.7 billion).

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2002, operating profit before goodwill amortisation

and impairment was $677 million (£450 million), capital expenditure $152 million (£101 million), depreciation $176 million (£117 million), tax paid $128 million (£85 million), interest and similar charges paid $117 million (£78 million) and other net cash inflows of $69 million (£46 million). Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore $525 million (£349 million). This free cash flow was absorbed by acquisition payments and investments of $423 million (£281 million), share repurchases and cancellations of $114 million (£76 million) and dividends of $84 million (£56 million). The Company almost fulfilled its recently set objective of covering acquisition payments and share repurchases and cancellations from free cash flow. A summarised unaudited consolidated cash flow statement is included in Appendix I.

In the first six weeks of 2003 up until 12 February, the last date for which information is available prior to this announcement, net debt averaged $1,646 million (£1,095 million) versus net debt of $1,616 million (£1,075 million) for the same period last year at 2003 exchange rates.

Your Board continues to examine ways of deploying its substantial cash flow of over $600 million (£400 million) per annum to enhance share owner value. As necessary capital expenditure is expected to remain equal to or less than the depreciation charge, the Company has concentrated on examining acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs. In 2002 the Group increased its equity interests, at a combined initial cost of $158 million (£105 million) in cash, in advertising and media investment management in the United Kingdom, France, Germany, Spain, the Netherlands, Switzerland, Sweden, Finland, the Czech Republic, Slovakia, Australia, New Zealand, China, India, Taiwan, Brazil and the Middle East; in information and consultancy in the United States, Ireland, France, Poland and Thailand; in public relations and public affairs in the United States, Norway, China, Australia, Japan and Taiwan; in direct and promotion in the United States; and in sports marketing in Germany.

As noted above, your Board has decided to increase the final dividend by 20% to 5.52 ¢ (3.67p) per share, taking the full year dividend to 8.12 ¢ (5.40p) per share which is four and a half times covered, at the headline earnings level. In addition, as current opportunities for cash acquisitions may be limited particularly in the United States, the Company will continue to commit to repurchasing up to 2% of its share base in the open market, when market conditions are appropriate. Such annual rolling share repurchases are perceived to have a more significant impact in improving share owner value than sporadic buy-backs.

In light of recent stock market declines and consequent poor equity investment returns, the Company has reduced its forecasted weighted average return on United States pension assets from 9.1% to 7.2% and on United Kingdom pension assets from 5.8% to 5.4%. Our advisers indicate that further average cash contributions of approximately $19 to $21 million (£12 to £13 million) per annum would be necessary to fully fund all funded pension schemes over their remaining lives, unless stock markets recover.

Developments in 2002

Including associates, the Group had over 62,000 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 Nasdaq 100, over 30 of the Fortune e-50, and approximately 333 national or multi-national clients in three or more disciplines. More than 130 clients are served in four disciplines and these clients account for over 50% of Group revenues. 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 at least 20% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies. New integration mechanisms, including WPP client co-ordinators and country managers, are being developed.

Future prospects

Given the current state of the world economy, your Group has performed reasonably well. In essence, operating costs, including severance and restructuring costs, have been reduced following the significant fall in like-for-like revenues. As the Group forecasted the general decline in economic conditions relatively early, the consequent focus on matching staff costs to revenues has resulted in a fall in average headcount by over 8% and point-to-point headcount by over 6%. This has been achieved, in part, by a slowdown in recruitment and the impact of the normal attrition rate.

With the recession, the task of eliminating under-utilised property costs continue to be a priority. At the beginning of 2002 the Group occupied approximately 14 million square feet worldwide. By the end of the year, occupancy had fallen to 13.5 million square feet or a 4% reduction. In addition, as a result of actions already taken, a further 1.1 million square feet or an additional 8% will be jettisoned by the end of 2003.

As usual and given conditions in 2002, our budgets for 2003 have been prepared on a conservative basis, largely excluding new business particularly in advertising and media investment management. They predict broadly flat like-for-like revenues in comparison to 2002 and a stronger second half of the year relative to the first. They also indicate advertising and media investment management revenues up by 1%, counterbalanced by flat marketing services revenues. We only have actual data for January in 2003, and this shows revenue marginally above budget and like-for-like revenues down 1% on last year. Estimated net new business billings so far in 2003 were very strong with almost $750 million of net wins according to trade publications.

Worldwide economic conditions are likely to remain difficult in 2003 particularly given the uncertainty created by the prospect of a war in Iraq. A bath-shaped or saucer-shaped recovery, where the upturn is gradual still seems most likely, although the bath does seem to have deep corrugations. The economy still

seems to be paying the price for the over-expansion of the late nineties. 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, growth in advertising and marketing services expenditure will likely remain fairly flat or low, particularly given procurement pressures and the dampening effect of the increasing proportion of fee remuneration on the impact of cyclical upturns (and downturns). However, there are now significant opportunities in the area of outsourcing clients' marketing activities, consolidating client budgets and capitalising on competitive weaknesses. In addition, 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 27% of the Group's revenue.

In the long-term, however, the outlook is very favourable. Overcapacity of production in most sectors and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications, the continued dominance of the United States economy and the need to influence distribution, 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 resume its growth and once more bust through the cyclical high established in 2000.

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 integrate successfully 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 2003 will again 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 qualitative group objectives, including co-ordination, talent management and succession planning.

In these circumstances there is no reason to believe that the Group cannot achieve the revised objective set in 2002 of improving margins by up to another one margin point in 2003 with the potential for a further half of one margin point improvement in 2004. 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 up to 13.8% by 2004. After all, the best listed performer in the industry is or has 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. Our ultimate objective continues to be to achieve 20% margins over a period of time and improving the return on capital employed.

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.

2002 was a very difficult year. 2003 will also be difficult but hopefully a little easier. Early indications are that worldwide advertising and marketing services expenditure will be up slightly. 2004 may well be better.

Our people have responded magnificently in 2002 to the difficult economic and political challenges that they have faced. They have delivered results which, even including all exceptional items, have out-performed most of their competition and grown market share.

We believe that despite the challenges that we face, 2003, WPP's eighteenth year, should be a good one.

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This press release may contain forward-looking statements within the meaning of the federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially including adjustments arising from the annual audit by management and the company's independent auditors. For further information on factors which could impact the company and the statements contained herein, please refer to public filings by the company with the Securities and Exchange Commission. The statements in this press release should be considered in light of these risks and uncertainties.