

WPP Annual General Meeting Trading Update

London
25/06/2001

- First Five Months Reportable Revenues Up Almost 62%
- Combined WPP And Y&R Constant Currency Revenues Up Almost 8%
- Operating Margins On Target To Reach 15% In 2001

The following statement was issued by the chairman at the Company's 29th Annual General Meeting held at 12.00 noon today:

"First, a few comments on current trading over the first five months of 2001, which has proven to be very different to 2000 as a result of the rapid deceleration in the growth rate of the US economy and its impact on the rest of the world.

Worldwide revenues were up by over 69% on a reportable basis, chiefly reflecting the merger with Young & Rubicam Inc. ("Y&R"). As sterling weakened against the dollar and Japanese yen, but strengthened less against the major European countries, constant currency revenues were up almost 62%. Again on a constant currency basis, revenues in North America were up over 62%. In Europe, the UK was up almost 35% and Continental Europe was up almost 89%. Asia Pacific, Latin America, Africa and the Middle East grew by over 63%.

By sector, advertising and media investment management was up over 59%, information and consultancy up 15%, public relations and public affairs up over 109% and branding and identity, healthcare and specialist communications up almost 85%, with gross margin up 101%.

As mentioned previously, these revenue growth figures for the first five months of 2001 have been heavily influenced by the merger with Y&R. On a proforma basis, adjusting only for Y&R, reportable revenues were up almost 13%. On a similar basis, constant currency revenues were up almost 8%. On a like-for-like basis, excluding all acquisitions and the impact of currency, revenues grew almost 4%.

This is significantly less than the comparable growth rate of 15% for the calendar year 2000 and reflects the impact of the US business-to-business recession which started in the fourth quarter of 2000. This initially affected the technology, media and telecommunications sectors and then spread into the "old" economy, although more patchily. It has primarily affected our public relations and public affairs communications sector and, to a lesser extent, branding and identity, healthcare and specialist communications. Information and consultancy has been relatively untouched, and advertising and media investment management has been less affected. Geographically, the US market remains primarily affected, although the impact is being felt in Europe, Asia Pacific and Latin America.

However, at the same time, given the current economic outlook and as a result of prudent cost management and the flexibility of variable costs, the Group's operating margins are forecast to improve in line with our objective of reaching 15% in 2001 and 15.5% in 2002. Our longer-term margin objective remains the achievement of 20% margins.

The Company continues to make significant progress in winning new business from existing and new clients, with major assignments, amongst others, from Accenture, British Telecom, Consignia, Ford, IBM, Kraft Foods, NFL, Roche, Symantec, TD Waterhouse Group, Telefonica, Twentieth Century Fox, Unilever and Zurich Life.

The Group's financial strategy continues to be focused on four objectives: increasing operating

profit by 15 - 20% per annum; increasing operating margins by 0.5% or more per annum, depending on the level of revenue growth; reducing staff cost to revenue ratios by 0.3% per annum or more again depending on the level of revenue growth; and finally converting 20 – 331/3% of incremental revenue to profit whilst growing revenues at or above industry growth rates.

Currently surplus cash flow amounts to approximately £500 million per annum. Alternatives for the use of this cash flow are capital expenditure, acquisitions, dividends and share buy-backs. Capital expenditure, mainly on information technology and property, continues at approximately one and a half times depreciation.

The Company continues to make small to medium-sized acquisitions or investments in high growth geographical or functional areas. These have been concentrated geographically in the United States, United Kingdom, France, Germany, Australia, Brazil, Hong Kong, South Korea, Portugal, Turkey and South Africa and functionally in advertising and media investment management in the United Kingdom, Brazil, South Africa and Turkey; in information and consultancy in the United States and Germany; in public relations and public affairs in the United States, Australia, France, Portugal and South Korea, and in branding and identity, healthcare and specialist communications in the United States, the United Kingdom, France and Germany. In addition, we seek to strengthen our geographic market positions in countries such as France, Germany, Italy, Spain and Japan.

Your Board also continues to focus on the options of increasing the dividend pay-out ratio and share buy-backs, and has continued a rolling share repurchase programme aimed at buying in £150 - £200 million, or approximately 1½ - 2%, of the outstanding share capital each year. So far this year, this has resulted in the cancellation or purchase of approximately 7 million shares at a total cost of £52 million and an average cost of £7.43 per share.

In June 2001 WPP completed its debut €1 billion Eurobond issue. The issue was heavily oversubscribed and two tranches were issued: a €350 million Eurobond due 2004 at 5.125% and a €650 million Eurobond due 2008 at 6.0%. The bonds were rated BAA1 (MOODY's), A- (S&P) and A- (FITCH). The company achieved its principal objective of further diversifying its funding base away from traditional bank markets. The Euro blended rate of 5.7% is equal to the Group's current cost of shorter-term funding.

Professionally, the parent company's objectives continue to be to encourage greater co-ordination and co-operation between Group companies, where this will benefit our clients and our people, and to improve our creative product. As both multi-national and national clients seek to expand geographically while at the same time seeking greater efficiencies, the Group is uniquely placed to deliver added value to clients with its coherent spread of functional and geographic activities.

To these ends we continue to develop our parent company talents in five areas: in human resources, with innovative recruitment programmes, training and career development, and incentive planning; in property, which includes radical re-design of the space we use to improve communication as well as the more mundane utilisation of surplus property; in procurement, to ensure we are using the Group's considerable buying power to the benefit of our clients; in information technology, to ensure that the rapid improvements in technology and capacity are deployed as quickly and effectively as possible; and finally in practice development where cross-brand or cross-tribe approaches are being developed in a number of product or service areas: media investment management, healthcare, new technologies, new markets, privatisation, internal communications, retailing, financial services, entertainment and media and hi-tech.

In addition, we seek to improve our creative product, in as broadly a defined sense as possible, by recruiting excellent outside talent, acquiring outstanding creative businesses, recognising and celebrating creative success and pursuing creative awards.

I am, of course, delighted to have become chairman of your company. At the same time,

however, we have said goodbye to Hamish Maxwell, our chairman for the past four years. We did this with regret, gratitude and affection. Formerly chairman and chief executive officer of one of the world's largest and most successful companies, he was an outstanding source of wisdom, counsel and kindness. We shall miss him sorely and wish him well.

Whilst talking about remarkable people, it reminds us of our debt to the 65,000 or so people who work for WPP companies and associates around the world. It is to their talent and hard work that we owe the success we report today. I would like, on behalf of you our shareowners and your Board, to recognise our gratitude to them and our admiration for their achievements."

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