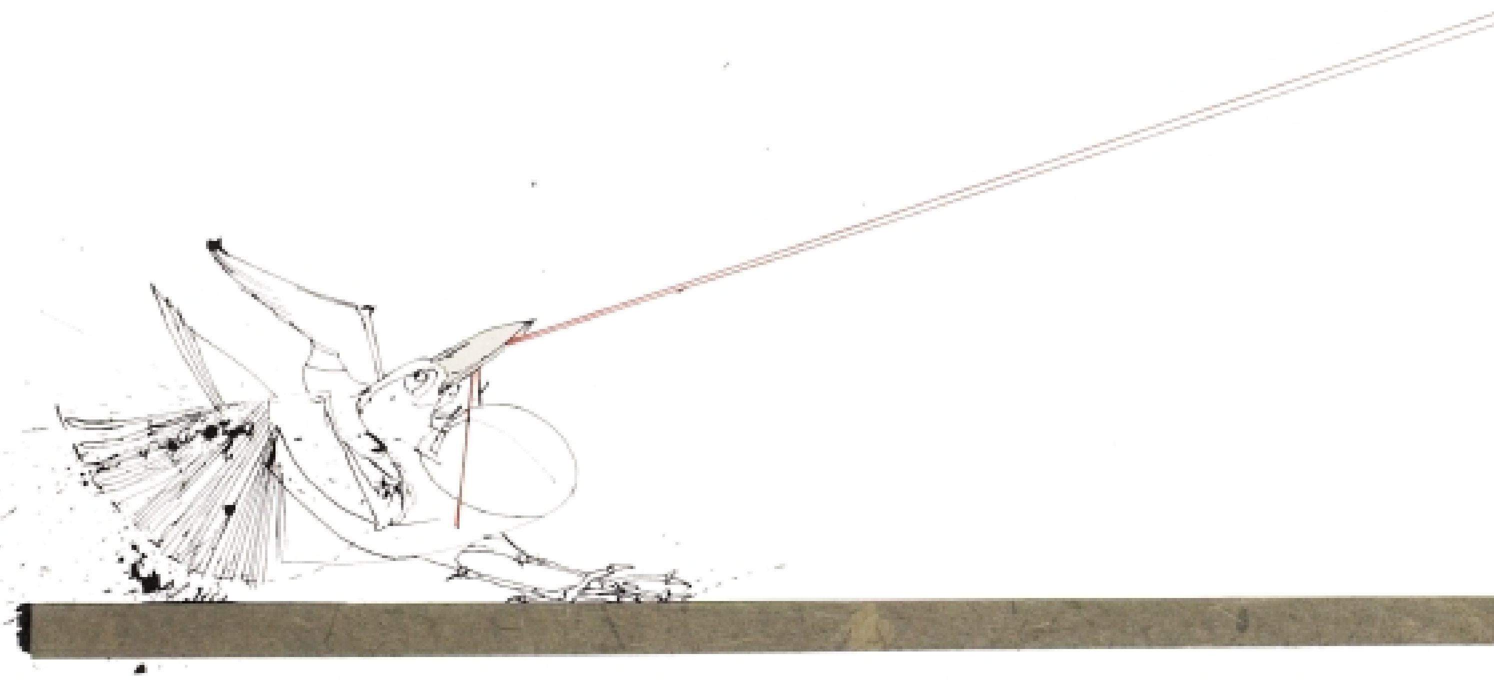
Our 2002 financial statements

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Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the UK (UK GAAP). A summary of the Group's principal accounting policies, which have been applied consistently throughout the year and the preceding year is set out below.

Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired or disposed of during the year are included or excluded from the profit and loss account from the effective date of acquisition or disposal.

Goodwill and intangible fixed assets

Intangible fixed assets comprise goodwill and certain acquired separable corporate brand names.

Goodwill represents the excess of the fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition. In accordance with FRS 10, for acquisitions made on or after 1 January 1998, goodwill has been capitalised as an intangible asset. Goodwill arising on acquisitions prior to that date was written off to reserves in accordance with the accounting standard then in force. On disposal or closure of a business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Corporate brand names acquired as part of acquisitions of business are capitalised separately from goodwill as intangible fixed assets if their value can be measured reliably on initial recognition.

For certain acquisitions, where the directors consider it appropriate, goodwill is amortised over its useful life up to a 20-year period, from the date of acquisition. The remaining goodwill and intangible assets of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and WPP's commitment to develop and enhance their value. The carrying value of these intangible assets will continue to be reviewed annually for impairment and adjusted to the recoverable amount if required.

The financial statements depart from the specific requirement of companies legislation to amortise goodwill over a finite period in order to give a true and fair view. The directors consider this to be necessary for the reasons given above. Because of the indefinite life of these intangible assets, it is not possible to quantify its impact. However, for illustrative purposes only, if the Group were to change its accounting policy and regard all intangible assets as having a limited useful economic life, and the useful economic life it chose was 20 years, then the resulting impact on the profit and loss account in 2002 would have been a charge of £231.0 million (2001: £182.0 million, 2000: £27.0 million).

Future anticipated payments to vendors in respect of earnouts are based on the directors' best estimates of future obligations, which are dependent on the future performance of the interests acquired and assume the operating companies improve profits in line with directors' estimates. When earnouts are to be settled by cash consideration, the fair value of the consideration is obtained by discounting to present value the amounts expected to be payable in the future.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment with the exception of freehold land which is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings – 2% per annum
Leasehold land and buildings – over the term of the lease or life of the asset, if shorter
Fixtures, fittings and equipment – 10-33% per annum
Computer equipment – 33% per annum

Investments

Except as stated below, fixed asset investments are shown at cost less impairment.

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account and the investments are shown in the consolidated balance sheet as the Group's share of the net assets. The Group's share of the profits less losses and net assets is based on current information produced by the undertakings, adjusted to conform with the accounting policies of the Group.

Current asset investments are stated at the lower of cost and net realisable value.

Stocks and work in progress

Work in progress is valued at cost or on a percentage of completion basis. Cost includes outlays incurred on behalf of clients and an appropriate proportion of direct costs and overheads on incomplete assignments. Provision is made for irrecoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

Debtors
Debtors are stated net of provisions for bad and doubtful debts.

Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Debt
Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

Turnover, cost of sales and revenue recognition
Turnover comprises the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned. Cost of sales comprises media payments and production costs. Revenue comprises commission and fees earned in respect of turnover. Direct costs include fees paid to external suppliers where they are retained to perform part or all of a specific project for a client and the resulting expenditure is directly attributable to the revenue earned. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Advertising and Media investment management
Revenue is typically derived from commissions on media placements and fees for advertising services. Traditionally, the Group's advertising clients were charged a standard commission on their total media and production expenditure. In recent years, however, this frequently has tended to become a matter of individual negotiation. Revenue may therefore consist of various arrangements involving commissions, fees, incentive-based revenue or a combination of the three, as agreed upon with each client.

Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. Incentive-based revenue typically comprises both quantitative and qualitative elements; on the element related to quantitative targets, revenue is recognised when the quantitative targets have been achieved; on the element related to qualitative targets, revenue is recognised when the incentive is received/receivable.

Information, insight & consultancy
Revenue is recognised on each market research contract in proportion to the level of service performed. Costs, including an appropriate proportion of overheads relating to contracts in progress at the balance sheet date, are carried forward in work in progress. Losses are recognised as soon as they are foreseen.

Public relations & public affairs and Branding & identity, Healthcare and Specialist communications
Revenue is typically derived from retainer fees and services to be performed subject to specific agreement. Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. Revenue is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account revenue and related costs as contract activity progresses.

Current taxation
Corporate taxes are payable on taxable profits at current rates.

Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxation

assessments in periods different from those in which they are recognised in the financial statements. A net deferred taxation asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on a non-discounted basis.

Incentive plans

The Group's share based incentive plans are accounted for in accordance with Urgent Issues Task Force ('UITF') Abstract 17 'Employee Share Schemes'. The cost of shares acquired by the Group's ESOP trusts or the fair market value of the shares at the date of the grant, less any consideration to be received from the employee, is charged to the Group's profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment) an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and an appropriate provision made.

Pension costs

The Group accounts for pension schemes in accordance with FRS 17 (Retirement Benefits).

For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases') the assets are treated as if they have been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the profit and loss account on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account as it is incurred.

Operating leases

Operating lease rentals are charged to the profit and loss account on a systematic basis. Any premium or discount on the acquisition of a lease is spread over the life of the lease or until the date of the first rent review.

Translation of foreign currencies

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise. The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net assets of these companies are translated at year-end exchange rates. Exchange differences arising from retranslation of the opening net assets, and on foreign currency borrowings to the extent that they hedge the Groups' investment in such operations, and results for the year are reported in the Statement of Total Recognised Gains and Losses. ■

Consolidated profit and loss account

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m	2002 $m*	2001 $m*	2000 $m*
Turnover (gross billings)	1	**18,028.7**	20,886.9	13,949.4	**27,108.0**	30,079.2	21,150.1
Cost of sales		**(14,120.4)**	(16,865.2)	(10,968.7)	**(21,231.4)**	(24,287.5)	(16,630.8)
Revenue	1	**3,908.3**	4,021.7	2,980.7	**5,876.6**	5,791.7	4,519.3
Direct costs		**(218.2)**	(232.0)	(244.6)	**(328.1)**	(334.2)	(370.8)
Gross profit		**3,690.1**	3,789.7	2,736.1	**5,548.5**	5,457.5	4,148.5
Operating costs excluding goodwill amortisation and impairment	2	**(3,239.9)**	(3,269.4)	(2,341.6)	**(4,871.5)**	(4,708.3)	(3,550.3)
Goodwill amortisation and impairment	2	**(177.7)**	(14.8)	(15.1)	**(267.2)**	(21.3)	(22.9)
Operating profit		**272.5**	505.5	379.4	**409.8**	727.9	575.3
Income from associates	15	**30.0**	40.8	38.0	**45.1**	58.8	57.6
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs		**302.5**	546.3	417.4	**454.9**	786.7	632.9
Profits on disposal of fixed assets	4	**9.2**	6.8	–	**13.8**	9.8	–
Amounts written off fixed asset investments	4	**(19.9)**	(70.8)	–	**(29.9)**	(102.0)	–
Net interest payable and similar charges on net borrowings		**(79.6)**	(67.5)	(50.3)	**(119.7)**	(97.2)	(76.3)
Net interest charges on defined benefit pension schemes		**(6.8)**	(3.8)	(1.4)	**(10.2)**	(5.5)	(2.1)
Net interest payable and similar charges	5	**(86.4)**	(71.3)	(51.7)	**(129.9)**	(102.7)	(78.4)
Profit on ordinary activities before taxation		**205.4**	411.0	365.7	**308.9**	591.8	554.5
Taxation on profit on ordinary activities	6	**(103.4)**	(126.1)	(109.7)	**(155.5)**	(181.6)	(166.3)
Profit on ordinary activities after taxation		**102.0**	284.9	256.0	**153.4**	410.2	388.2
Minority interests		**(14.0)**	(13.7)	(11.3)	**(21.1)**	(19.7)	(17.1)
Profit attributable to ordinary share owners		**88.0**	271.2	244.7	**132.3**	390.5	371.1
Ordinary dividends	7	**(62.5)**	(51.6)	(37.8)	**(94.0)**	(74.3)	(57.3)
Retained profit for the year transferred to reserves	25	**25.5**	219.6	206.9	**38.3**	316.2	313.8
PBIT[1]	1	**480.2**	561.1	432.5	**722.1**	808.0	655.8
PBIT[1] margin		**12.3%**	14.0%	14.5%	**12.3%**	14.0%	14.5%
PBT[1]		**400.6**	493.6	382.2	**602.4**	710.8	579.5
Headline earnings per share[2]	8						
Basic earnings per ordinary share		**25.5p**	32.1p	31.3p	**38.3¢**	46.2¢	47.5¢
Diluted earnings per ordinary share		**24.9p**	30.9p	30.3p	**37.4¢**	44.5¢	45.9¢
Standard earnings per share	8						
Basic earnings per ordinary share		**7.9p**	24.6p	29.3p	**11.9¢**	35.4¢	44.4¢
Diluted earnings per ordinary share		**7.7p**	23.7p	28.4p	**11.6¢**	34.1¢	43.1¢
Headline earnings per ADR[2]							
Basic earnings per ADR		**127.5p**	160.5p	156.5p	**$1.92**	$2.31	$2.37
Diluted earnings per ADR		**124.5p**	154.5p	151.5p	**$1.87**	$2.22	$2.30
Standard earnings per ADR							
Basic earnings per ADR		**39.5p**	123.0p	146.5p	**$0.59**	$1.77	$2.22
Diluted earnings per ADR		**38.5p**	118.5p	142.0p	**$0.58**	$1.71	$2.15

The accompanying notes form an integral part of this profit and loss account.

* The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. For illustrative purposes only, the financial statements set out on this page and page 109 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (2002: $1.5036 = £1, 2001: $1.4401 = £1, 2000: $1.5162 = £1) and the rate in effect on 31 December for the balance sheet (2002: $1.6100 = £1, 2001: $1.4542 = £1, 2000: $1.4937 = £1). This translation is unaudited and should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated. The consolidated euro profit and loss account and balance sheet have been set out on pages 130 and 131 for illustrative purposes only.

There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by FRS 3. Movements in share owners' funds are set out in note 25.

No operations with a material impact on the Group's results were acquired or discontinued during 2002 or 2001. For 2000, aggregated figures for acquisitions were revenue of £438.9 million, operating profit of £61.5 million and PBIT of £66.4 million.

Notes

1 PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.
PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.
The calculation of PBIT and PBT is set out in note 28.

2 Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

Consolidated cash flow statement

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m
Operating profit		**272.5**	505.5	379.4
Depreciation		**116.6**	109.9	63.8
Goodwill amortisation and impairment charges		**177.7**	14.8	15.1
Movements in working capital and provisions	10	**210.5**	(458.0)	164.8
Loss on sale of tangible fixed assets		**2.6**	1.7	1.3
Net cash inflow from operating activities		**779.9**	173.9	624.4
Dividends received from associates		**9.4**	14.7	7.6
Returns on investments and servicing of finance	11	**(78.2)**	(56.4)	(66.0)
UK and overseas tax paid		**(85.0)**	(77.5)	(81.4)
Capital expenditure and financial investment	11	**(157.9)**	(217.2)	(199.1)
Acquisitions and disposals	11	**(277.3)**	(730.3)	(281.0)
Equity dividends paid		**(55.6)**	(44.4)	(25.6)
Net cash inflow/(outflow) before management of liquid resources and financing		**135.3**	(937.2)	(21.1)
Management of liquid resources	9	**(113.6)**	(76.8)	–
Net cash inflow from financing	11	**213.9**	499.0	204.6
Increase/(decrease) in cash and overdrafts for the year		**235.6**	(515.0)	183.5
Translation difference		**(0.4)**	10.7	35.1
Balance of cash and overdrafts at beginning of year		**265.7**	770.0	551.4
Balance of cash and overdrafts at end of year		**500.9**	265.7	770.0

	Notes	2002 £m	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net debt:				
Increase/(decrease) in cash and overdrafts for the year		**235.6**	(515.0)	183.5
Cash outflow from increase in liquid resources	9	**113.6**	76.8	–
Cash inflow from increase in debt financing		**(201.2)**	(430.0)	(126.6)
Debt acquired		**–**	–	(194.9)
Other movements		**(8.8)**	(1.1)	(1.9)
Translation difference		**23.2**	8.8	23.4
Movement in net debt in the year		**162.4**	(860.5)	(116.5)
Net (debt)/funds at beginning of year	9	**(885.1)**	(24.6)	91.9
Net debt at end of year	9	**(722.7)**	(885.1)	(24.6)

The accompanying notes form an integral part of this cash flow statement.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m
Profit for the financial year		**88.0**	271.2	244.7
Exchange adjustments on foreign currency net investments	25	**82.3**	(80.6)	(133.0)
Actuarial loss on defined benefit pension schemes in accordance with FRS 17 (Retirement Benefits)	25	**(52.8)**	(43.0)	(27.0)
Total recognised gains and losses relating to the year		**117.5**	147.6	84.7

The accompanying notes form an integral part of this statement of total recognised gains and losses.

Consolidated balance sheet

As at 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m	2002 $m	2001 $m	2000 $m
Fixed assets							
Intangible assets							
Corporate brands	13	**950.0**	950.0	950.0	**1,529.5**	1,381.5	1,419.0
Goodwill	13	**4,407.0**	4,439.9	3,497.3	**7,095.3**	6,456.5	5,223.9
Tangible assets	14	**377.3**	432.8	390.2	**607.5**	629.4	582.8
Investments	15	**628.7**	553.5	551.5	**1,012.2**	804.9	823.8
		6,363.0	6,376.2	5,389.0	**10,244.5**	9,272.3	8,049.5
Current assets							
Stocks and work in progress	16	**291.6**	236.9	241.1	**469.5**	344.5	360.1
Debtors	17	**2,256.4**	2,391.8	2,181.0	**3,632.8**	3,478.2	3,257.8
Trade debtors within working capital facility:	18						
Gross debts		**385.7**	331.0	464.9	**621.0**	481.3	694.4
Non-returnable proceeds		**(217.4)**	(82.5)	(231.6)	**(350.0)**	(119.9)	(345.9)
		168.3	248.5	233.3	**271.0**	361.4	348.5
Current asset investments (short-term bank and escrow deposits)	9	**190.4**	76.8	–	**306.5**	111.7	–
Cash at bank and in hand		**689.1**	585.6	1,067.6	**1,109.5**	851.6	1,594.7
		3,595.8	3,539.6	3,723.0	**5,789.3**	5,147.4	5,561.1
Creditors: amounts falling due within one year	19	**(4,120.1)**	(4,322.0)	(4,252.4)	**(6,633.4)**	(6,285.1)	(6,351.8)
Net current liabilities		**(524.3)**	(782.4)	(529.4)	**(844.1)**	(1,137.7)	(790.7)
Total assets less current liabilities		**5,838.7**	5,593.8	4,859.6	**9,400.4**	8,134.6	7,258.8
Creditors: amounts falling due after more than one year (including convertible bonds)	20	**(1,837.5)**	(1,711.5)	(1,279.6)	**(2,958.4)**	(2,488.9)	(1,911.3)
Provisions for liabilities and charges	21	**(102.0)**	(106.1)	(98.2)	**(164.2)**	(154.3)	(146.7)
Net assets excluding pension provision		**3,899.2**	3,776.2	3,481.8	**6,277.8**	5,491.4	5,200.8
Pension provision	22	**(184.8)**	(135.3)	(87.7)	**(297.5)**	(196.8)	(131.0)
Net assets including pension provision		**3,714.4**	3,640.9	3,394.1	**5,980.3**	5,294.6	5,069.8
Capital and reserves							
Called up share capital	24, 25	**115.7**	115.0	111.2	**186.3**	167.2	166.1
Share premium account	25	**836.6**	805.2	709.0	**1,346.9**	1,170.9	1,059.0
Shares to be issued	25	**195.7**	238.6	386.7	**315.1**	347.0	577.6
Merger reserve	25	**2,869.3**	2,824.7	2,630.2	**4,619.6**	4,107.7	3,928.7
Other reserves	25	**(254.3)**	(336.8)	(256.2)	**(409.4)**	(489.8)	(382.6)
Profit and loss account	25	**(87.4)**	(46.9)	(211.0)	**(140.7)**	(68.2)	(315.2)
Equity share owners' funds		**3,675.6**	3,599.8	3,369.9	**5,917.8**	5,234.8	5,033.6
Minority interests		**38.8**	41.1	24.2	**62.5**	59.8	36.2
Total capital employed		**3,714.4**	3,640.9	3,394.1	**5,980.3**	5,294.6	5,069.8

The accompanying notes form an integral part of this balance sheet.

Signed on behalf of the Board on 14 May 2003:

Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated financial statements

For the year ended 31 December 2002

1 Segment information

The Group is a leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services. These services include Advertising and Media investment management, Information, insight & consultancy, Public relations & public affairs, and Branding & identity, Healthcare and Specialist communications. The Group derives a substantial proportion of its revenue and operating income from the US, the UK and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions.

Contributions by geographical area were as follows:

	2002 £m	Change %	2001 £m	Change %	2000 £m
Turnover					
UK	**1,689.9**	1.5	1,664.6	24.6	1,336.3
US	**7,711.2**	(28.0)	10,708.6	77.8	6,023.8
Continental Europe	**5,525.8**	24.3	4,445.0	32.9	3,344.3
Canada, Asia Pacific, Latin America, Africa & Middle East	**3,101.8**	(23.8)	4,068.7	25.4	3,245.0
	18,028.7	(13.7)	20,886.9	49.7	13,949.4
Revenue					
UK	**619.2**	(1.3)	627.3	17.8	532.4
US	**1,655.0**	(6.1)	1,763.1	38.4	1,273.6
Continental Europe	**929.6**	6.7	870.9	48.5	586.3
Canada, Asia Pacific, Latin America, Africa & Middle East	**704.5**	(7.4)	760.4	29.2	588.4
	3,908.3	(2.8)	4,021.7	34.9	2,980.7
PBIT[1]					
UK	**67.5**	(8.7)	73.9	5.1	70.3
US	**239.2**	(7.1)	257.6	28.6	200.3
Continental Europe	**99.7**	(16.7)	119.7	45.8	82.1
Canada, Asia Pacific, Latin America, Africa & Middle East	**73.8**	(32.8)	109.9	37.7	79.8
	480.2	(14.4)	561.1	29.7	432.5

There is no material difference between turnover determined by origin and that determined by destination.

Contributions by operating sector were as follows:

	2002 £m	Change %	2001 £m	Change %	2000 £m
Turnover					
Advertising and Media investment management	**14,878.4**	(14.2)	17,347.8	51.4	11,455.6
Information, insight & consultancy	**627.1**	(17.2)	757.8	46.4	517.5
Public relations & public affairs	**568.6**	(7.9)	617.5	46.2	422.5
Branding & identity, Healthcare and Specialist communications	**1,954.6**	(9.7)	2,163.8	39.3	1,553.8
	18,028.7	(13.7)	20,886.9	49.7	13,949.4
Revenue					
Advertising and Media investment management	**1,810.0**	(1.7)	1,841.5	31.6	1,399.0
Information, insight & consultancy	**598.6**	1.4	590.3	15.3	512.1
Public relations & public affairs	**447.6**	(10.9)	502.1	52.1	330.1
Branding & identity, Healthcare and Specialist communications	**1,052.1**	(3.3)	1,087.8	47.1	739.5
	3,908.3	(2.8)	4,021.7	34.9	2,980.7
PBIT[1]					
Advertising and Media investment management	**274.7**	(14.0)	319.4	37.2	232.8
Information, insight & consultancy	**42.4**	(26.4)	57.6	11.6	51.6
Public relations & public affairs	**46.5**	(3.7)	48.3	11.8	43.2
Branding & identity, Healthcare and Specialist communications	**116.6**	(14.1)	135.8	29.5	104.9
	480.2	(14.4)	561.1	29.7	432.5

Notes

[1] PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of PBIT is set out in note 28.

2 Operating costs

	2002 £m	2001 £m	2000 £m
Total staff costs (note 3)	**2,230.0**	2,268.9	1,616.2
Establishment costs	**329.4**	313.6	216.8
Other operating expenses (net)	**677.9**	685.2	507.3
Loss on sale of tangible fixed assets	**2.6**	1.7	1.3
Operating costs excluding goodwill amortisation and impairment	**3,239.9**	3,269.4	2,341.6
Goodwill amortisation and impairment	**177.7**	14.8	15.1
Total operating costs	**3,417.6**	3,284.2	2,356.7
Operating expenses include:			
Depreciation of tangible fixed assets	**116.6**	109.9	63.8
Goodwill amortisation	**32.0**	14.8	6.6
Goodwill impairment	**145.7**	–	8.5
Operating lease rentals:			
Land and buildings (excluding real estate taxation)	**207.4**	186.7	125.2
Plant and machinery	**45.7**	44.2	31.6
	253.1	230.9	156.8

All of the operating costs of the Group are related to administrative expenses.

The impairment charge relates to a number of under-performing businesses in the Information, insight & consultancy, and Branding & identity, Healthcare and Specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill. £120.6 million (more than 80%) of the impairment charge relates to goodwill that was previously being amortised. Note 13 gives further information on the Group's 2002 impairment review.

	2002 £m Current auditors	2002[1] £m Previous auditors	2001[1] £m	2000[1] £m
Auditors' remuneration:				
Services as auditors	**5.4**	**–**	5.1	3.7
Further assurance services[2]	**0.3**	**1.9**	6.3	3.7
	5.7	**1.9**	11.4	7.4
Non-audit services:				
Tax advisory	**1.6**	**1.1**	3.7	2.3
Consulting	**0.3**	**0.6**	1.7	0.4
	7.6	**3.6**	16.8	10.1

Notes

[1] Arthur Andersen resigned as auditors on 24 June 2002. These amounts were paid to them in their capacity as auditors for the years ended 31 December 2001 and 2000.

[2] Further assurance services comprise due diligence and transaction support services.

All non-audit services require pre-approval by the Audit committee.

Auditors other than Deloitte & Touche and Arthur Andersen were paid £0.2 million (2001: £0.5 million, 2000: £0.4 million) for audit services. In 2002 fees paid to auditors in respect of due diligence and transaction services, included in further assurance and other non-audit services above, of £1.5 million (2001: £6.5 million, 2000: £3.9 million) were capitalised.

Depreciation segment information

The following table shows depreciation expense attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	**51.9**	48.3	30.6
Information, insight & consultancy	**17.8**	18.1	10.8
Public relations & public affairs	**14.9**	14.1	6.5
Branding & identity, Healthcare and Specialist communications	**32.0**	29.4	15.9
	116.6	109.9	63.8

Goodwill amortisation segment information

The following table shows goodwill amortisation attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	**0.8**	–	–
Information, insight & consultancy	**8.4**	3.9	–
Public relations & public affairs	**1.2**	0.7	–
Branding & identity, Healthcare and Specialist communications	**21.6**	10.2	6.6
	32.0	14.8	6.6

2 Operating costs (continued)

Minimum committed annual rentals

Amounts payable (net of taxation) in 2003 under the foregoing leases will be as follows:

	Plant and machinery			Land and buildings		
	2003 £m	2002 £m	2001 £m	2003 £m	2002 £m	2001 £m
In respect of operating leases which expire:						
– within one year	**8.8**	7.6	5.4	**20.5**	33.4	10.2
– within two to five years	**22.2**	20.8	16.2	**88.9**	72.1	39.1
– after five years	**1.8**	1.4	0.3	**73.9**	90.9	62.3
	32.8	29.8	21.9	**183.3**	196.4	111.6

Future minimum annual amounts payable (net of taxation) under all lease commitments in existence at 31 December 2002 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2003	216.1	(16.9)	199.2
2004	173.2	(15.7)	157.5
2005	148.0	(13.7)	134.3
2006	114.6	(10.3)	104.3
2007	87.5	(7.5)	80.0
Later years (to 2013)	260.1	(27.1)	233.0
	999.5	**(91.2)**	**908.3**

3 Our people

Our staff numbers averaged 50,417 against 50,487 in 2001, including acquisitions. Their geographical distribution was as follows:

	2002 Number	2001 Number	2000 Number
UK	**6,783**	6,797	5,425
US	**13,535**	14,831	11,058
Continental Europe	**13,908**	13,006	7,985
Canada, Asia Pacific, Latin America, Africa & Middle East	**16,191**	15,853	11,689
	50,417	50,487	36,157

At the end of 2002 staff numbers were 49,439 compared with 51,009 in 2001.

Total staff costs were made up as follows:

	2002 £m	2001 £m	2000 £m
Wages and salaries	**1,604.7**	1,664.0	1,125.1
Payments and provisions charged under short- and long-term incentive plans	**90.1**	81.1	118.3
Social security costs	**181.7**	182.2	120.5
Other pension costs (note 22)	**60.6**	55.7	39.4
Other staff costs	**292.9**	285.9	212.9
	2,230.0	2,268.9	1,616.2
Staff cost to revenue ratio	**57.1%**	56.4%	54.2%

Directors' emoluments are disclosed on page 79.

4 Fixed asset gains, write-down of fixed asset investments and other items impacting Quality of Earnings

Disposal of freehold properties and fixed asset investments

The profits on disposal of fixed assets comprise:

	2002 £m	2001 £m	2000 £m
Profits on disposal of freehold properties	**3.6**	–	–
Profits on disposal of investments	**5.6**	6.8	–
	9.2	6.8	–

Profits were realised on the disposal of two freehold properties in the UK and on a number of minority investments in new media and marketing services companies in the US and UK.

Notes to the consolidated financial statements (continued)

4 Fixed asset gains, write-down of fixed asset investments and other items impacting Quality of Earnings (continued)

Write-down of fixed asset investments
Amounts written off fixed asset investments of £19.9 million (2001: £70.8 million, 2000: £nil) relate to write-downs on certain non-core minority investments in new media companies and other technology ventures in light of the continuing decline in technology equity valuations. Following these write-downs, investments in which the Group has less than a 20% interest amount to £25.0 million (note 15).

These transactions did not have a material effect on the Group's tax charge (2001: £8.6 million charge, 2000: £nil) or minority interest (2001: £nil, 2000: £nil).

Other items
During the year, the Group continued to take measures to reduce its fixed and variable cost base in response to the continuing global downturn in its core markets. These actions resulted in a number of charges which, although recurring in nature, were at a considerably higher level than would normally be expected. These items principally comprised property rationalisation costs and severance payments. In addition, due to the above market factors, amounts were written off trade receivables and other current assets.

At the same time the Group has released £13.0 million (2001: £22.5 million, 2000: £7.9 million) to operating profit relating to excess provisions established in respect of acquisitions completed prior to 2001.

Management consider that the combination of the above charges and releases, when taken together, in no way impacts the Group's quality of earnings.

5 Net interest payable and similar charges

	2002 £m	2001 £m	2000 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**6.3**	6.2	3.2
– repayable within five years, not by instalments	**33.8**	44.8	38.7
– on all other loans (including corporate and convertible bonds)	**67.7**	39.9	14.7
Interest payable of associate undertakings	**1.8**	0.7	–
Total interest payable	**109.6**	91.6	56.6
Interest receivable of associate undertakings	**(2.2)**	(1.7)	(0.2)
Gain on purchase of Eurobond	**(1.2)**	–	–
Interest receivable	**(31.0)**	(33.5)	(22.3)
Net interest payable	**75.2**	56.4	34.1
Charges in respect of working capital facilities	**4.4**	11.1	16.2
Net interest payable and similar charges on net borrowings	**79.6**	67.5	50.3
Net interest charges on defined benefit pension schemes (note 22)	**6.8**	3.8	1.4
	86.4	71.3	51.7

Interest payable on the Group's borrowings, other than the bonds, is payable at a margin of between 0.4% and 0.475% over relevant LIBOR.

The majority of the Group's long-term debt is represented by $300 million of USA bonds at a weighted average of 6.71%, €955 million of Eurobonds at a rate of 5.68% (prior to interest rate swaps (note 9)), £450 million of convertible bonds at 3% (including redemption premium accrual and prior to the cross-currency swaps (note 9)) and $287.5 million of convertible bonds at a rate of 3%.

Average borrowings under the Syndicated Revolving Credit Facilities (note 9) amounted to $388.7 million at an average interest rate of 2.6% (2001: 4.7%, 2000: 6.2%) inclusive of margin.

Derivative financial instruments

	2002 €	2002 $	2001 €	2001 $	2000 $
Interest rate swaps					
Notional principal amount	**€400m**	**$200m**	€400m	$250m	$350m
Average pay rate	**EURIBOR +0.81%**	**6.22%**	EURIBOR +0.81%	6.2%	6.17%
Average receive rate	**6.0%**	**LIBOR**	6.0%	LIBOR	LIBOR
Average term	**67 months**	**0.4 months**	79 months	10 months	5 months
Latest maturity date	**Jun 2008**	**Jan 2003**	Jun 2008	Jan 2003	Jan 2003

	2002 £/€	2002 £/$	2002 £/$	2002 £/Yen
Cross currency swaps				
£ Principal receivable	£31.055m	£52.668m	£163.501m	£47.934m
Currency principal payable	€50m	$75m	$235m	Yen9,000m
Currency rate payable	EURIBOR –2.0775%	LIBOR –2.068%	LIBOR –1.7775%	FIXED –1.2925%
£ rate receivable	3.43%	3.43%	3.43%	3.43%

5 Net interest payable and similar charges (continued)

The Group enters into interest rate swap agreements to manage its proportion of fixed and floating rate debt. The Group also entered cross-currency swap agreements to match the currency of its debt with the currency of its cash flows.

The differential paid or received by the Group on the interest element of the swap agreements is charged/(credited) to interest expense in the year to which it relates.

The term of such instruments is not greater than the term of the debt being hedged and any anticipated refinancing or extension of the debt.

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings.

Other than the above, the Group has no significant utilisation of interest rate derivative financial instruments.

The fair value of derivatives is disclosed in note 23. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 98 and 99.

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2002 £m	2001 £m	2000 £m
Corporation tax at 30% (2001: 30%, 2000: 30%)	**22.3**	24.9	6.4
Deferred taxation	**(1.5)**	(5.5)	(10.6)
Overseas taxation	**71.5**	97.2	100.3
Tax on profits of associate companies	**11.1**	16.4	13.6
Tax on investment gains and other items (note 4)	**–**	(6.9)	–
	103.4	126.1	109.7
Effective tax rate on profit before tax	**50.3%**	30.7%	30.0%
Effective tax rate on headline profit before tax (note 28)	**25.8%**	26.9%	28.7%
Total current tax	**93.8**	122.1	106.7
Total deferred tax	**(1.5)**	(5.5)	(10.6)
Share of associates tax	**11.1**	16.4	13.6
Tax on investment gains and other items	**–**	(6.9)	–
Total tax on profits on ordinary activities	**103.4**	126.1	109.7
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%, 2000: 30%)	**52.6**	111.1	98.3
Effects of:			
Utilisation of tax losses brought forward	**(1.3)**	(16.1)	(9.7)
Unused tax losses carried forward	**11.1**	22.9	9.4
Y&R acquisition attributes	**(27.6)**	(32.1)	–
Differences between UK and overseas statutory tax rates	**17.3**	19.4	12.8
Permanent differences between expenditures charged in arriving at income and expenditure allowed for tax purposes	**41.7**	16.9	(4.1)
Total current tax	**93.8**	122.1	106.7

The Group obtains tax deductions in certain jurisdictions that are permanent differences and hence are not included within the potential deferred tax asset disclosed in note 17. The gross amount of these unutilised deductions is £436.7 million.

7 Ordinary dividends

	2002	2001	2000	2002	2001	2000
Per share	Pence per share			**£m**	£m	£m
Interim dividend paid	**1.73p**	1.44p	1.20p	**20.0**	16.4	9.3
Final dividend proposed	**3.67p**	3.06p	2.55p	**42.5**	35.2	28.5
	5.40p	4.50p	3.75p	**62.5**	51.6	37.8
Per ADR[1]	Cents per ADR			**$m**	$m	$m
Interim dividend paid	**13.0¢**	10.4¢	9.1¢	**30.1**	23.6	14.1
Final dividend proposed	**27.6¢**	22.0¢	19.3¢	**63.9**	50.7	43.2
	40.6¢	32.4¢	28.4¢	**94.0**	74.3	57.3

Notes
[1] These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 107. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

8 Earnings per ordinary share

Basic and diluted earnings per share have been calculated in accordance with FRS 14 'Earnings per Share'.

Headline basic earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million), and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £195.2 million (2001: £82.6 million, 2000: £16.5 million). The weighted average number of shares in issue used was 1,110,556,878 shares (2001: 1,101,937,750 shares, 2000: 834,280,801 shares).

Headline diluted earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million) and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £195.2 million (2001: £82.6 million, 2000: £16.5 million). The weighted average number of shares in issue used was 1,136,548,459 shares (2001: 1,157,080,255 shares, 2000: 865,978,000 shares). This takes into account the exercise of employee share options, where these are expected to dilute earnings, and convertible debt. For the year ended 31 December 2002 both the $287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. For the years ended 31 December 2001 and 31 December 2000 the $287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million (2000: £0.9 million) for the purposes of this calculation.

Standard basic earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million) and weighted average shares in issue during the period of 1,110,556,878 shares (2001: 1,101,937,750 shares, 2000: 834,280,801 shares).

Standard diluted earnings per share have been calculated using earnings of £88.0 million (2001: £271.2 million, 2000: £244.7 million). The weighted average number of shares used was 1,136,548,459 shares (2001: 1,157,080,255 shares, 2000: 865,978,000 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings and convertible debt. For the year ended 31 December 2002 both the $287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. For the year ended 31 December 2001 the $287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million (2000: £0.9 million) for the purposes of this calculation.

Basic and diluted earnings per ADR have been calculated using the same method as earnings per share, multiplied by a factor of five.

At 31 December 2002 there were 1,157,325,640 ordinary shares in issue.

9 Sources of finance

The following table is a supplementary disclosure to the consolidated cash flow statement, summarising the equity and debt financing of the Group, and changes during the year:

	2002 Shares £m	2002 Debt £m	2001 Shares £m	2001 Debt £m	2000 Shares £m	2000 Debt £m
Analysis of changes in financing						
Beginning of year	920.2	1,227.6	820.2	794.6	680.4	459.5
Shares issued in respect of acquisitions	0.2	–	0.7	–	30.2	–
Share cancellations	(0.2)	–	–	–	–	–
Share issue costs paid	(1.0)	–	–	–	–	–
Other issues of share capital	33.1	–	99.3	–	109.6	–
Increase in drawings on bank loans and convertible bonds	–	210.7	–	439.0	–	126.6
Debt acquired	–	–	–	–	–	194.9
Net amortisation/(payment) of financing costs included in net debt	–	(0.7)	–	(8.0)	–	0.5
Exchange adjustments on long-term borrowings	–	(23.6)	–	2.0	–	13.1
End of year	952.3	1,414.0	920.2	1,227.6	820.2	794.6

The above table excludes bank overdrafts which fall within cash for the purposes of the consolidated cash flow statement.

Shares

At 31 December 2002, the Company's share base was entirely composed of ordinary equity share capital and share premium of £952.3 million (2001: £920.2 million, 2000: £820.2 million), further details of which are disclosed in notes 24 and 25.

Debt

USA bond The Group has in issue $200 million of 6.625% Notes due 2005 and $100 million of 6.875% Notes due 2008.

Eurobond The Group has in issue €350 million of 5.125% bonds due 2004 and €605 million bonds of 6.0% due 2008. During 2002, the Group purchased €45 million of the 6% bonds due 2008 in the open market at a price of 94.72%. The total cost of these market purchases was €43.6 million including accrued interest. The gain recorded was €2.3 million and was included within interest income in the profit and loss account.

9 Sources of finance (continued)

Revolving Credit Facilities The Group's debt is also funded by a five-year $750 million Revolving Credit Facility due September 2006. A facility of £360 million, arranged during 2001 to acquire Tempus Group plc, was cancelled as at April 2002. The Group's syndicated borrowings drawn down, predominantly in US dollars, under these agreements averaged $388.7 million (2001: $533.7 million, 2000: $422.0 million). The Group had available undrawn committed facilities of £466 million at 31 December 2002 (2001: £664 million, 2000: £407 million).

Borrowings under the Revolving Credit Facilities are governed by certain financial covenants based on the results and financial position of the Group.

Convertible debt

In October 2000, with the purchase of Young & Rubicam Inc, the Group acquired $287.5 million of 3% convertible bonds due 15 January 2005. At the option of the holder, the bonds are convertible into 3,272,400 WPP ADRs at a conversion price of $87.856. The bonds may be redeemed at WPP's option on or after 20 January 2003. Interest on the bonds is payable on 15 January and 15 July of each year, beginning on 15 July 2000. The bonds are unsecured obligations of Y&R and are guaranteed by WPP.

In April 2002, the Group issued £450 million of 2% convertible bonds due April 2007. At the option of the holder, the bonds are convertible into 41,860,465 WPP ordinary shares at an initial share price of £10.75. As the bonds are redeemable at a premium of 5.35% over par, the conversion price increases during the life of the bonds to £11.33 per share into the same number of shares as above.

Current asset investments/liquid resources

At 31 December 2002, the Group had £190.4 million (2001: £76.8 million, 2000: £Nil) of cash deposits with a maturity greater than 24 hours.

The following table is an analysis of net funds with debt analysed by year of repayment:

	2002 £m	Change[1] in year £m	2001 £m	Change in year £m	2000 £m
Debt					
Within one year	(11.5)	(11.5)	–	–	–
Between one and two years	(227.4)	(5.7)	(221.7)	(221.7)	–
Between two and three years	(302.3)	(90.3)	(212.0)	190.8	(402.8)
Between three and four years	–	334.0	(334.0)	(334.0)	–
Between four and five years	(420.1)	(420.1)	–	324.9	(324.9)
Over five years	(452.7)	7.2	(459.9)	(393.0)	(66.9)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	(1,414.0)	(186.4)	(1,227.6)	(433.0)	(794.6)
Short-term overdrafts – within one year	(188.2)	131.7	(319.9)	(22.3)	(297.6)
Debt financing	(1,602.2)	(54.7)	(1,547.5)	(455.3)	(1,092.2)
Cash at bank and in hand	689.1	103.5	585.6	(482.0)	1,067.6
Current asset investments	190.4	113.6	76.8	76.8	–
Net debt	(722.7)	162.4	(885.1)	(860.5)	(24.6)

Notes

[1] Includes £Nil (2001: £Nil) of debt, £2.1 million (2001: £86.5 million) of short-term overdrafts and £64.9 million (2001: £65.4 million) of cash at bank acquired.

Analysis of fixed and floating rate debt by currency including the effect of interest rate and cross-currency swaps:

2002 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	489.1[2]	5.23%	n/a	26
	– floating	285.7[2]	n/a	LIBOR	n/a
£		154.8	3%	n/a	52
€	– fixed	361.7	5.45%	n/a	36
	– floating	293.3	n/a	EURIBOR	n/a
¥	– floating	47.1	n/a	LIBOR	n/a
Other		(0.3)	n/a	VARIOUS	n/a
		1,631.4			

2001 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	486.5[2]	5.11%	n/a	40
	– floating	51.6	n/a	LIBOR	n/a
£		130.0	n/a	LIBOR	n/a
€	– fixed	367.6	5.49%	n/a	50
	– floating	275.7	n/a	EURIBOR	n/a
Other		(1.3)	n/a	Various	n/a
		1,310.1			

Notes

[1] Weighted average.

[2] Including drawings on working capital facility as described in note 18.

9 Sources of finance (continued)

2000 Currency	£m	Fixed rate[1]	Floating basis	Period (months)[1]
$ – fixed	624.9[2]	5.37%	n/a	42
– floating	148.0	n/a	LIBOR	n/a
£	178.0	n/a	LIBOR	n/a
€	71.6	n/a	LIBOR	n/a
Other	3.7	n/a	various	n/a
	1,026.2			

Notes

1 Weighted average.

2 Including drawings on working capital facility as described in note 18.

10 Reconciliation of operating profit to net cash inflow from operating activities

The following table analyses the changes in working capital and provisions that have contributed to the net cash inflow from operating activities in the consolidated cash flow statement:

	2002 £m	2001 £m	2000 £m
Changes in working capital and provisions			
(Increase)/decrease in stocks and work in progress	**(70.7)**	18.1	(14.7)
Increase in debtors	**(18.1)**	(4.7)	(434.9)
Increase/(decrease) in creditors – short term	**307.4**	(473.4)	537.8
– long term	**0.6**	(25.4)	1.7
(Decrease)/increase in provisions	**(8.7)**	27.4	74.9
Decrease/(increase) in working capital and provisions	**210.5**	(458.0)	164.8

The main reconciliation is disclosed along with the cash flow statement on page 108.

11 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 108:

	2002 £m	2001 £m	2000 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(98.9)**	(84.2)	(76.2)
Interest received	**32.7**	38.6	17.9
Dividends paid to minorities	**(12.0)**	(10.8)	(7.7)
Net cash outflow	**(78.2)**	(56.4)	(66.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 14)	**(100.5)**	(118.1)	(111.9)
Purchase of own shares by ESOP trust (note 15)	**(67.6)**	(103.3)	(94.1)
Proceeds from sale of tangible fixed assets and other movements	**10.2**	4.2	6.9
Net cash outflow	**(157.9)**	(217.2)	(199.1)
Acquisition and disposals			
Initial cash consideration for acquisitions	**(141.2)**	(616.0)	(161.3)
Earnout payments	**(82.4)**	(74.1)	(40.3)
Loan note redemptions	**(93.7)**	(2.7)	(4.9)
Less cash/(overdraft) acquired	**62.8**	(21.1)	(33.6)
Purchase of other investments	**(26.1)**	(43.2)	(40.9)
Proceeds from disposal of other investments	**3.3**	26.8	–
Net cash outflow	**(277.3)**	(730.3)	(281.0)
Financing activities			
(Reduction)/increase in drawings on bank loans	**(239.3)**	(175.3)	126.6
Financing costs and share issue	**(12.9)**	(8.8)	–
Proceeds from issue of shares	**24.4**	69.0	78.0
Proceeds from issue of Eurobond	**–**	614.1	–
Proceeds from issue of convertible bond	**450.0**	–	–
Share cancellations	**(8.3)**	–	–
Net cash inflow	**213.9**	499.0	204.6

12 Segment information

Net assets by geographical area were as follows:

	2002 £m	2001 £m	2000 £m
UK	**919.9**	752.6	148.2
US	**3,069.7**	2,821.3	2,606.5
Continental Europe	**195.1**	450.3	279.3
Canada, Asia Pacific, Latin America, Africa & Middle East	**252.4**	501.8	384.7
	4,437.1	4,526.0	3,418.7
Net interest bearing debt	**(722.7)**[1]	(885.1)	(24.6)
Net assets including pension provision	**3,714.4**	3,640.9	3,394.1

Net assets by operating sector were as follows:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	**4,229.0**	3,548.5	2,542.4
Information, insight & consultancy	**(22.3)**	310.7	154.6
Public relations & public affairs	**(104.0)**	241.4	223.3
Branding & identity, Healthcare and Specialist communications	**334.4**	425.4	498.4
	4,437.1	4,526.0	3,418.7
Net interest bearing debt	**(722.7)**[1]	(885.1)	(24.6)
Net assets including pension provision	**3,714.4**	3,640.9	3,394.1

Notes

1 The net interest bearing debt has not been allocated within the above analyses as the debt is held centrally and specifically allocating it to individual segments is not considered to be a fair representation of the net assets of those segments.

Certain items, including the amounts in respect of corporate brand names, have been allocated within the above analyses on the basis of the revenue of the subsidiary undertakings to which they relate.

13 Intangible fixed assets

	2002 £m	2001 £m	2000 £m
Corporate brand names	**950.0**	950.0	950.0

Corporate brand names represent J. Walter Thompson Company, Hill & Knowlton, Ogilvy & Mather Worldwide and the Young & Rubicam Group. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 104.

Goodwill	£m
1 January 2001	3,497.3
Additions	957.7
Amortisation	(14.8)
Disposals	(0.3)
31 December 2001	4,439.9
Additions	144.8
Amortisation	(32.0)
Impairment	(145.7)
31 December 2002	**4,407.0**

Additions represent goodwill arising on the acquisition of subsidiary undertakings. Goodwill arising on the acquisition of associate undertakings is shown within fixed asset investments in note 15.

Gross goodwill of £572.3 million (2001: £340.0 million, 2000: £131.0 million) is subject to amortisation over periods of up to 20 years.

In accordance with the Group's accounting policy, the Group annually tests the carrying value of indefinite life goodwill and other intangible assets for impairment. Goodwill subject to periodic amortisation is tested for impairment if there is a change in circumstances that suggests that the carrying value may not be recoverable.

The 2002 impairment review was initially undertaken as at 30 June 2002 and then updated as at 31 December 2002. The review assessed whether the carrying value of goodwill was supported by the net present value of future cashflows derived from assets using a projection period of up to five years for each income generating unit. After the projection period, growth rates of nominal GDP have been assumed for each income generating unit.

13 Intangible fixed assets (continued)

The impairment reviews relating to Young & Rubicam (goodwill of £2,498.3 million) and Mediaedge:cia (goodwill of £838.5 million) were carried out using a 10 year projection period as the Group believes that this longer period is more appropriate to assess the carrying value of these global networks given current economic volatility. The projections for the initial three years were derived from existing budgets and three year plans and form the base period. Projections for the remaining seven years assume an annual 4.4% growth in revenues and an improvement in operating margins to 17% by 2007. At the end of the 10 year period growth is assumed to be in line with nominal GDP

The projections above include assumptions about payments for cash taxes and cashflows have therefore been discounted using the Group's weighted average cost of capital of 8.5%.

14 Tangible fixed assets

The movements in 2002 and 2001 were as follows:

	Land and buildings				
Cost:	Freehold[1] £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 2001	70.3	239.8	247.3	319.6	877.0
Additions	0.6	30.0	24.9	62.6	118.1
New acquisitions	1.1	12.2	23.6	31.0	67.9
Disposals	(0.3)	(6.6)	(20.3)	(24.0)	(51.2)
Exchange adjustments	(0.7)	2.0	1.3	6.3	8.9
31 December 2001	71.0	277.4	276.8	395.5	1,020.7
Additions	3.0	28.5	15.9	53.1	100.5
New acquisitions	0.8	2.0	6.6	5.7	15.1
Disposals	(7.9)	(30.0)	(34.1)	(40.5)	(112.5)
Exchange adjustments	(6.9)	(23.2)	(20.5)	(28.3)	(78.9)
31 December 2002	**60.0**	**254.7**	**244.7**	**385.5**	**944.9**
Depreciation:					
1 January 2001	18.7	106.4	157.8	203.9	486.8
New acquisitions	0.3	5.6	12.7	19.9	38.5
Charge	0.6	23.7	25.7	59.9	109.9
Disposals	(0.1)	(4.6)	(18.5)	(22.2)	(45.4)
Exchange adjustments	0.1	2.0	1.1	(5.1)	(1.9)
31 December 2001	19.6	133.1	178.8	256.4	587.9
New acquisitions	0.2	0.9	7.3	3.3	11.7
Charge	0.4	27.0	27.4	61.8	116.6
Disposals	(1.6)	(28.8)	(31.2)	(38.2)	(99.8)
Exchange adjustments	(2.0)	(13.7)	(15.9)	(17.2)	(48.8)
31 December 2002	**16.6**	**118.5**	**166.4**	**266.1**	**567.6**
Net book value:					
31 December 2002	**43.4**	**136.2**	**78.3**	**119.4**	**377.3**
31 December 2001	51.4	144.3	98.0	139.1	432.8
1 January 2001	51.6	133.4	89.5	115.7	390.2

Notes

[1] Includes land of £18.3 million.

Leased assets (other than leasehold property) included above have a net book value of £3.8 million (2001: £3.8 million, 2000: £3.6 million). Future obligations in respect of these leased assets were £1.6 million at 31 December 2002 and are included in other creditors.

At the end of the year, capital commitments contracted, but not provided for in respect of tangible fixed assets were:

	2002 £m	2001 £m	2000 £m
Capital commitments – tangible fixed assets	**9.1**	3.7	12.6

15 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Associate under-takings £m	Goodwill on associate under-takings £m	Own shares £m	Other invest-ments £m	Total £m
1 January 2001	165.8	142.0	160.2	83.5	551.5
Additions	5.4	–	103.3	9.0	117.7
Goodwill arising on acquisition of new associates	–	38.8	–	–	38.8
Share of profits after tax of associate undertakings	18.1	–	–	–	18.1
Dividends and other movements	(28.6)	–	–	(0.3)	(28.9)
Exchange adjustments	(15.5)	–	–	–	(15.5)
Disposals	(2.5)	–	(13.1)	–	(15.6)
Reclassification to subsidiaries	(32.2)	–	–	(9.6)	(41.8)
Write-downs	(13.7)	–	–	(57.1)	(70.8)
31 December 2001	96.8	180.8	250.4	25.5	553.5
Additions	0.3	–	67.6	15.9	83.8
Goodwill arising on acquisition of new associates	–	10.2	–	–	10.2
Share of profits after tax of associate undertakings	18.0	–	–	–	18.0
Dividends and other movements	7.1	–	–	(4.9)	2.2
Exchange adjustments	(0.6)	–	–	(0.6)	(1.2)
Disposals	(0.6)	–	(5.8)	(1.7)	(8.1)
Reclassification from/(to) subsidiaries	17.2	(30.5)	–	3.5	(9.8)
Write-downs	(7.2)	–	–	(12.7)	(19.9)
31 December 2002	**131.0**	**160.5**	**312.2**	**25.0**	**628.7**

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Brierley & Partners	20.3	US
Chime Communications PLC	20.1	UK
DYR Tokyo Agency	49.0	Japan
High Co S.A.	32.0	France
IBOPE Group	31.2	Brazil
Singleton, Ogilvy & Mather (Holdings) Pty Limited	40.8	Australia

The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Ownership Plan ('ESOP') trust of shares in WPP Group plc for the purpose of funding certain of the Group's long-term incentive plan liabilities, details of which are disclosed in the Compensation committee report on pages 83 to 91.

The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds provided by the Company. The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its administrative costs.

The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 2002 was 58,210,657 (2001: 48,716,092, 2000: 36,208,185) and £276.2 million (2001: £370.2 million, 2000: £315.7 million) respectively. The trust received dividends on the shares held, as the right to dividends has not been waived by the trustees.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2002 was as follows: Asatsu-DK: £107.9 million, Chime Communications PLC: £4.5 million, High Co S.A.: £29.2 million. The carrying value (including goodwill) of these equity interests in the Group's balance sheet at 31 December 2002 was as follows: Asatsu-DK: £126.7 million, Chime Communications PLC: £2.5 million, High Co S.A.: £38.1 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Summarised financial information

The following tables present a summary of the aggregate financial performance and net asset position of the Group's principal associate undertakings. These have been estimated and converted, where appropriate, to a UK GAAP presentation based on information provided by the relevant companies at 31 December 2002. Total revenue generated by all the Group's associates is estimated to be £736.0 million for the year ended 31 December 2002.

	2002 £m	2001 £m	2000 £m
Profit and loss account			
Revenue	**448.9**	485.9	434.3
Operating profit	**53.0**	75.9	67.2
Profit before tax	**57.0**	89.0	79.9
Profit attributable to ordinary share owners	**47.9**	49.2	44.8

15 Fixed asset investments (continued)

	2002 £m	2001 £m	2000 £m
Balance sheet			
Current assets	**850.6**	936.2	864.8
Non-current assets	**604.4**	798.4	572.9
Current liabilities	**698.5**	775.6	711.8
Non-current liabilities	**109.5**	203.1	99.8
Net assets	**647.0**	755.9	626.1

Associate segment information
The following table shows the carrying value of associate undertakings (including goodwill) attributable to each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	**195.3**	179.3	219.4
Information, insight & consultancy	**26.8**	28.7	28.8
Public relations & public affairs	**2.8**	2.6	2.9
Branding & identity, Healthcare and Specialist communications	**66.6**	67.0	56.7
	291.5	277.6	307.8

The following table shows the income (before interest and taxation) attributable to associate undertakings in each of the Company's operating sectors:

	2002 £m	2001 £m	2000 £m
Advertising and Media investment management	**21.1**	23.5	22.3
Information, insight & consultancy	**5.7**	6.3	4.6
Public relations & public affairs	**(1.6)**	1.9	3.9
Branding & identity, Healthcare and Specialist communications	**4.8**	9.1	7.2
	30.0	40.8	38.0

At the end of the year, capital commitments contracted, but not provided for in respect of fixed asset investments were:

	2002 £m	2001 £m	2000 £m
Capital commitments – fixed asset investments	**49.4**	–	–

Capital commitments for fixed asset investments comprise capital calls and cash in escrow committed for acquisitions expected to complete in 2003. 2002 commitments include £39.9 million of cash held in escrow in respect of the acquisition of a 36% equity investment in LG Ad, Korea's second largest advertising agency. This transaction subsequently completed in January 2003.

16 Stocks and work in progress

The following are included in the net book value of stocks and work in progress:

	2002 £m	2001 £m	2000 £m
Work in progress	**288.8**	234.4	238.2
Stocks	**2.8**	2.5	2.9
	291.6	236.9	241.1

17 Debtors

The following are included in debtors:

	2002 £m	2001 £m	2000 £m
Amounts falling due within one year			
Trade debtors outside working capital facility	**1,753.0**	1,840.5	1,699.4
VAT and sales taxes recoverable	**32.3**	31.9	20.9
Corporate income taxes recoverable	**14.2**	22.6	13.2
Deferred tax	**61.6**	61.5	57.4
Other debtors	**239.7**	266.6	229.6
Prepayments and accrued income	**120.0**	106.6	121.4
	2,220.8	2,329.7	2,141.9

17 Debtors (continued)

Amounts falling due after more than one year	2002 £m	2001 £m	2000 £m
Other debtors	**32.8**	42.7	31.2
Prepayments and accrued income	**2.8**	19.4	7.9
	35.6	62.1	39.1
	2,256.4	2,391.8	2,181.0

Movements on bad debt provisions were as follows:

	2002 £m	2001 £m	2000 £m
Balance at beginning of year	**63.8**	50.6	16.6
Charged/(credited):			
To costs and expenses	**18.3**	15.3	16.5
Exchange adjustments	**(2.8)**	4.1	0.8
Utilisations and other movements	**(20.8)**	(6.2)	16.7
Balance at end of year	**58.5**	63.8	50.6

The allowance for bad and doubtful debts is equivalent to 3.0% (2001: 3.1%, 2000: 2.6%) of gross trade accounts receivable.

A deferred tax asset of £110.8 million (2001: £122.0 million, 2000: £77.0 million) has not been recognised on losses available to carry forward and other timing differences across the Group in accordance with the Group's accounting policies. These will be offsettable only against taxable profits generated in the entities concerned, and currently there is insufficient evidence that any asset would be recoverable. A potential deferred tax liability of £12.1 million is required by FRS 19 to be offset against these gross deferred tax assets although this deferred tax liability would crystallise only in the unlikely event that the Group disposed of certain acquired entities in a manner that gave rise to a taxable transaction.

18 Debtors within working capital facility

The following are included in debtors within the Group's working capital facilities:

	2002 £m	2001 £m	2000 £m
Gross debts	**385.7**	331.0	464.9
Non-returnable proceeds	**(217.4)**	(82.5)	(231.6)
	168.3	248.5	233.3

Within the Group's overall working capital facilities, certain trade debts have been assigned as security against the advance of cash. This security is represented by the assignment of a pool of trade debts to a bankruptcy remote subsidiary of the Group, with further assignment to the providers of this working capital facility. The financing provided against this pool takes into account, *inter alia*, the risks that may be attached to the individual debtors and the expected collection period.

The Group is not obliged (and does not intend) to support any credit-related losses arising from the assigned debts against which cash has been advanced. The transaction documents stipulate that, in the event of default in payment by a debtor, the providers of the facility may only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that recourse from the Group is not available in any other way.

19 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	2002 £m	2001 £m	2000 £m
Bank loans and overdrafts (note 9)	**199.7**	319.9	297.6
Trade creditors	**2,477.8**	2,506.2	2,574.9
Corporate income taxes payable	**29.9**	51.3	42.4
Other taxation and social security	**111.7**	116.1	122.5
Dividends proposed (note 7)	**42.5**	35.2	28.5
Payments due to vendors (earnout agreements)	**73.6**	103.1	94.1
Loan notes due to vendors	**27.3**	61.5	6.8
Other creditors and accruals	**822.6**	806.5	818.0
Deferred income	**335.0**	322.2	267.6
	4,120.1	4,322.0	4,252.4

Bank loans and overdrafts include overdrafts of £188.2 million (2001: £319.9 million, 2000: £297.6 million).

20 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	2002 £m	2001 £m	2000 £m
Corporate bonds and bank loans (note 9)	**773.9**	1,029.9	602.1
Convertible bonds (note 9)	**628.6**	197.7	192.5
Corporate income taxes payable	**215.7**	222.2	212.5
Payments due to vendors (earnout agreements)	**164.2**	185.1	208.2
Other creditors and accruals	**55.1**	76.6	64.3
	1,837.5	1,711.5	1,279.6

The following table sets out the directors' best estimates of future earnout related obligations:

	2002 £m	2001 £m	2000 £m
Within one year	**73.6**	103.1	94.1
Between one and two years	**75.9**	48.9	84.8
Between two and three years	**20.8**	60.0	45.5
Between three and four years	**36.5**	25.3	42.7
Between four and five years	**29.0**	43.3	19.7
Over five years	**2.0**	7.6	15.5
	237.8	288.2	302.3

The corporate bonds, convertible bonds, bank loans and overdrafts included within short- and long-term creditors fall due for repayment as follows:

	2002 £m	2001 £m	2000 £m
Within one year	**199.7**	319.9	297.6
Between one and two years	**227.4**	221.7	–
Between two and three years	**302.3**	212.0	402.8
Between three and four years	**–**	334.0	–
Between four and five years	**420.1**	–	324.9
Over five years	**452.7**	459.9	66.9
	1,602.2	1,547.5	1092.2

21 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Other post-retirement benefits £m	Long-term incentive plans £m	Property and other £m	Total £m
1 January 2001	22.7	32.2	43.3	98.2
Charged to the profit and loss account	4.3	12.5	6.9	23.7
New acquisitions	–	–	15.0	15.0
Utilised	–	(13.0)	(5.3)	(18.3)
Transfers	–	(1.0)	(12.5)	(13.5)
Exchange adjustments	0.1	0.4	0.5	1.0
31 December 2001	27.1	31.1	47.9	106.1
Charged to the profit and loss account	0.3	30.7	1.9	32.9
New acquisitions	–	–	0.4	0.4
Utilised	–	(8.7)	(1.5)	(10.2)
Transfers	(11.7)	(1.8)	(8.3)	(21.8)
Exchange adjustments	(1.4)	(1.0)	(3.0)	(5.4)
31 December 2002	**14.3**	**50.3**	**37.4**	**102.0**

Other post-retirement benefits
These include provisions in respect of certain unfunded retirement benefit schemes which are defined contribution in nature.

Long-term incentive plans
Long-term incentive plans are operated by certain of the Group's operating companies, the provision representing accrued compensation to 31 December 2002 that may become payable after more than one year, as described in the Compensation committee report on pages 83 to 91.

21 Provisions for liabilities, charges and contingent liabilities (continued)

Property and other
Property and other provisions comprise other liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount. These include certain onerous lease obligations and contingent liabilities where the likelihood of settlement is considered probable.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims will have a material adverse effect on the Group's financial position or on the results of its operations.

Contingent liabilities in respect of option agreements
WPP has entered into agreements with certain share owners of partially owned subsidiaries and associate companies to acquire equity interests. These agreements typically contain options requiring WPP to purchase their shares at specified times up to 2009 on the basis of average earnings both before and after the exercise of the option.

All arrangements contain clauses that cap the maximum amount payable by WPP. The table below shows the illustrative amounts that would be payable by WPP in respect of these options, on the basis of the relevant companies' current financial performance, if all the options had been exercised at 31 December 2002.

	Currently Exercisable £m	Not Currently Exercisable £m	Total £m
Subsidiaries	8.5	24.5	33.0
Associates	11.0	8.8	19.8
Total	19.5	33.3	52.8

22 Pension provisions and pension arrangements

Companies within the Group operate a large number of pension schemes, the forms and benefits of which vary with conditions and practices in the countries concerned. The Group's pension costs are analysed as follows:

	2002 £m	2001 £m	2000 £m
Defined contribution schemes	**49.2**	41.4	30.1
Defined benefit schemes charge to operating profit	**11.4**	14.3	9.3
Other pension costs (note 3)	**60.6**	55.7	39.4
Net interest charges on defined benefit pension schemes (note 5)	**6.8**	3.8	1.4
	67.4	59.5	40.8

Defined benefit schemes
The pension costs are assessed in accordance with the advice of local independent qualified actuaries. The latest full actuarial valuations for the various schemes were carried out as at various dates in the last three years. These valuations have been updated by the local independent qualified actuaries to 31 December 2002.

The Group has a policy of closing defined benefit schemes to new members which has been effected in respect of a significant number of the schemes. As a result, these schemes generally have an ageing membership population. In accordance with FRS 17, the actuarial calculations have been carried out using the Projected Unit Method. In these circumstances, use of this method implies that the contribution rate implicit in the current service cost will increase in future years.

Contributions to funded schemes are determined in line with local conditions and practices. Certain contributions in respect of unfunded schemes are paid as they fall due. The total contributions (for funded schemes) and benefit payments (for unfunded schemes) paid for 2002 amounted to £21.5 million (2001: £13.5 million, 2000: £20.4 million).

22 Pension provisions and pension arrangements (continued)

(a) Assumptions
The main weighted average assumptions used for the actuarial valuations at 31 December are shown in the following table:

	2002 % pa	2001 % pa	2000 % pa	1999 % pa
UK				
Discount rate	**5.5**	5.8	5.5	5.8
Rate of increase in salaries	**3.3**	3.3	3.7	3.9
Rate of increase in pensions in payment	**3.8**	3.8	3.9	4.0
Inflation	**2.5**	2.5	3.0	3.3
Expected rate of return on equities	**7.3**	7.5	7.5	7.5
Expected rate of return on bonds[1]	**4.8**	5.0	5.0	5.0
Expected rate of return on property	**6.8**	7.0	7.0	7.0
Expected rate of return on cash	**2.8**	3.0	3.0	3.0
Weighted average return on assets	**5.4**	5.8	5.8	5.8
US				
Discount rate	**6.8**	7.5	7.9	7.4
Rate of increase in salaries	**4.0**	6.2	6.2	5.9
Rate of increase in pensions in payment	**n/a**	n/a	n/a	n/a
Inflation	**3.0**	3.4	4.0	3.8
Expected rate of return on equities	**8.2**	10.0	10.0	10.0
Expected rate of return on bonds[1]	**5.3**	7.0	7.0	7.0
Expected rate of return on property	**n/a**	n/a	n/a	n/a
Expected rate of return on cash	**3.5**	3.5	3.5	3.5
Weighted average return on assets	**7.2**	9.1	9.0	8.2
Continental Europe				
Discount rate	**5.5**	5.9	6.3	6.3
Rate of increase in salaries	**3.1**	2.4	2.4	2.4
Rate of increase in pensions in payment	**1.7**	1.0	0.8	0.9
Inflation	**2.0**	1.5	2.0	1.9
Expected rate of return on equities	**7.5**	6.0	6.0	6.0
Expected rate of return on bonds[1]	**5.0**	6.2	6.2	6.2
Expected rate of return on property	**7.0**	6.0	6.0	6.0
Expected rate of return on cash	**3.0**	6.0	6.0	6.0
Weighted average return on assets	**6.0**	6.1	6.1	6.1
Canada, Asia Pacific, Latin America, Africa & Middle East				
Discount rate	**2.8**	4.3	4.1	4.0
Rate of increase in salaries	**2.7**	2.5	2.6	2.6
Rate of increase in pensions in payment	**n/a**	n/a	n/a	n/a
Inflation	**1.7**	n/a	n/a	n/a
Expected rate of return on equities	**n/a**	n/a	n/a	n/a
Expected rate of return on bonds[1]	**2.7**	5.1	4.8	5.1
Expected rate of return on property	**n/a**	n/a	n/a	n/a
Expected rate of return on cash	**6.0**	n/a	n/a	n/a
Weighted average return on assets	**2.8**	5.1	4.8	5.1

Notes
[1] Expected rate of return on bond assumptions reflects the yield expected on actual bonds held, whereas the discount rate assumptions are based on high quality bond yields.

(b) Assets and liabilities
At 31 December, the fair value of the assets in the schemes, and the assessed present value of the liabilities in the schemes are shown in the following table:

	2002 £m	2001 £m	2000 £m	1999 £m
Group				
Equities	**115.8**	152.9	159.7	80.5
Bonds	**163.9**	156.2	178.5	153.0
Property	**10.8**	10.2	11.0	10.7
Cash	**4.5**	4.1	4.4	4.3
Total fair value of assets	**295.0**	323.4	353.6	248.5
Present value of scheme liabilities	**(479.8)**	(458.7)	(441.3)	(294.1)
Deficit in the scheme	**(184.8)**	(135.3)	(87.7)	(45.6)

The related deferred tax asset is discussed in note 17.

Deficit in schemes by region				
UK	**(35.8)**	(19.3)	(13.7)	(12.3)
US	**(111.6)**	(84.6)	(45.1)	(13.3)
Continental Europe	**(31.3)**	(23.7)	(21.2)	(12.2)
Canada, Asia Pacific, Latin America, Africa & Middle East	**(6.1)**	(7.7)	(7.7)	(7.8)
Deficit in the scheme	**(184.8)**	(135.3)	(87.7)	(45.6)

22 Pension provisions and pension arrangements (continued)

Some of the Group's defined benefit schemes are unfunded (or largely unfunded) by common custom and practice in certain jurisdictions.

In the case of these unfunded schemes, the benefit payments are made as and when they fall due. Pre-funding of these schemes would not be typical business practice.

The following table shows the split of the deficit at 31 December 2002 between funded and unfunded schemes.

The average period over which the underfunding would typically be payable (working lifetimes for schemes with active members or lifetimes for schemes with predominantly retired members) is also shown in the table.

	Deficit £m	Funding period years
Funded schemes by region		
UK	35.8	8.2
US	68.5	8.4
Continental Europe	2.3	13.9
Canada, Asia Pacific, Latin America, Africa & Middle East	0.5	13.8
Deficit in the funded schemes	**107.1**	**8.5**
Unfunded schemes by region		
UK	–	–
US	43.1	13.3
Continental Europe	29.0	12.9
Canada, Asia Pacific, Latin America, Africa & Middle East	5.6	13.3
Deficit in the unfunded schemes	**77.7**	**13.2**

(c) Pension expense
The following table shows the breakdown of the pension expense between amounts charged to operating profit, amounts charged to net interest payable and similar charges and amounts recognised in the statement of total recognised gains and losses (STRGL):

	2002 £m	2001 £m	2000 £m
Group			
Current service cost	**12.1**	13.3	9.3
Past service cost	**(0.7)**	1.8	–
Gain on settlements and curtailments	**–**	(0.8)	–
Charge to operating profit	**11.4**	14.3	9.3
Expected return on pension scheme assets	**(21.9)**	(24.8)	(17.8)
Interest on pension scheme liabilities	**28.7**	28.6	19.2
Charge to net interest payable and similar charges	**6.8**	3.8	1.4
Charge to profit on ordinary activities before taxation for defined benefit schemes	**18.2**	18.1	10.7
Loss on pension scheme assets relative to expected return	**36.7**	46.0	9.2
Experience gains and losses arising on the scheme liabilities	**3.6**	8.4	10.5
Changes in assumptions underlying the present value of the scheme liabilities	**21.5**	(10.9)	5.6
Movement in exchange rates	**(9.0)**	(0.5)	1.7
Actuarial loss recognised in STRGL	**52.8**	43.0	27.0

(d) Movement in scheme deficit
The following table shows an analysis of the movement in the scheme deficit for each accounting period:

	2002 £m	2001 £m	2000 £m
Group			
Deficit at 1 January	**135.3**	87.7	45.6
Current service cost	**12.1**	13.3	9.3
Past service costs	**(0.7)**	1.8	–
Gain on settlements and curtailments	**–**	(0.8)	–
Acquisitions	**–**	–	24.8
Charge to net interest payable and similar charges	**6.8**	3.8	1.4
Actuarial loss	**52.8**	43.0	27.0
Employer contributions	**(21.5)**	(13.5)	(20.4)
Deficit at 31 December	**184.8**	135.3	87.7

22 Pension provisions and pension arrangements (continued)

(e) History of experience gains and losses

	2002 £m	2001 £m	2000 £m	1999 £m
Loss on pension scheme assets relative to expected return:				
Amount	**36.7**	46.0	9.2	0.7
Percentage of scheme assets	**12.4%**	14.2%	2.6%	0.3%
Experience losses arising on the scheme liabilities:				
Amount	**3.6**	8.4	10.5	0.4
Percentage of the present value of the scheme liabilities	**0.8%**	1.8%	2.4%	0.1%
Total loss recognised in STRGL:				
Amount	**52.8**	43.0	27.0	10.4
Percentage of the present value of the scheme liabilities	**11.0%**	9.4%	6.1%	3.5%

23 Fair value of financial instruments

Derivative financial instruments

The fair value of derivatives, based on the amount that would be receivable or payable if the Group had sought to enter into such transactions, based on quoted market prices where possible, was as follows:

	31 Mar 2003 Swaps £m	31 Dec 2002 Swaps £m	31Dec 2001 Swaps £m	31 Dec 2000 Swaps £m
Fair Value	**62.0**	52.9	4.0	(0.5)
Book Value	**29.8**	28.2	6.1	0.7

The book value above represents net accrued interest and the foreign translation difference on the principal amounts.

As explained in the operating and financial review on pages 98 and 99, the Group's policy is to hedge the following exposures: interest rate risk – using interest swaps, caps and collars; currency swaps; and forward foreign currency contracts; structural and transactional currency exposures, and currency exposures on future expected sales – using currency swaps and forward foreign currency contracts.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 January 2002	11.1	(7.1)	4.0
Gains and losses arising in previous years that were recognised in 2002	4.9	(7.1)	(2.2)
Gains and losses arising in previous years that were not recognised in 2002	6.2	–	6.2
Gains and losses arising in 2002 that were not recognised in 2002	49.7	(3.0)	46.7
Unrecognised gains and losses on hedges at 31 December 2002	55.9	(3.0)	52.9
Of which: Gains and losses expected to be recognised in 2003	14.2	(0.2)	14.0
Gains and losses expected to be recognised in 2004 or later	41.7	(2.8)	38.9

The fair value of the above swaps has been obtained from a market data source.

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 2002 does not differ materially from their aggregate carrying values recorded in the consolidated balance sheet.

The Group has used the methods and assumptions detailed below to estimate the fair values of the Group's financial instruments.

Cash, accounts receivable, accounts payable, overdrafts and short-term borrowings (including those drawn under the Revolving Credit Facilities) are considered to approximate fair value because of the short maturity of such instruments.

The fair value of our $300 million bonds, €955 million Eurobonds, $287.5 million convertible bond and £450 million convertible bond at 31 December 2002 was £1,419 million (book value: £1,437 million). This is calculated by reference to market prices at 31 December 2002. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange.

24 Authorised and issued share capital

	2002 Number m	2002 £m	2001 Number m	2001 £m	2000 Number m	2000 £m
Authorised:						
Equity ordinary shares of 10p each	**1,750.0**	**175.0**	1,750.0	175.0	1,750.0	175.0
Issued:						
Equity ordinary shares of 10p each	**1,157.3**	**115.7**	1,149.6	115.0	1,111.9	111.2

During the year the Group allotted 9 million shares with a nominal value of £0.9 million. Movements in each year are shown in note 25.

Share options

WPP Executive Share Option Scheme

As at 31 December 2002, unexercised options over ordinary shares of 27,987,302 and unexercised options over ADRs of 10,149,444 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
288,106	0.318	2000 – 2003
161,183	1.020	1996 – 2003
586,845	1.080	1998 – 2005
5,049	1.150	1997 – 2004
771,444	1.190	1997 – 2004
586,351	1.269	2000 – 2006
282,481	1.269	2000 – 2007
1,383,201	1.540	1998 – 2005
421,872	1.540	2000 – 2005
2,102,049	2.040	2000 – 2007
677,417	2.140	1999 – 2006
2,130,273	2.335	1999 – 2006
6,037	2.535	2000 – 2007
2,332,316	2.835	2000 – 2007
2,852,828	2.930	2001 – 2008
5,022	3.030	2001 – 2008
36,500	3.270	2001 – 2008
83,500	4.136	2000 – 2008
42,153	4.210	2005 – 2006
4,205,141	4.210	2005 – 2012
95,805	4.210	2005 – 2013
68,980	4.210	2006 – 2012
127,877	4.438	2005 – 2012
456,313	4.705	2000 – 2008
49,089	4.865	2004 – 2005
3,007,079	4.865	2004 – 2011
45,583	4.865	2005 – 2011
108,772	5.185	2002 – 2009
546,136	5.700	2002 – 2009
1,309,827	6.163	2000 – 2009
7,005	6.280	2004 – 2011
41,750	6.328	2000 – 2009
1,160,996	7.052	2000 – 2010
78,899	7.180	2005 – 2012
20,875	7.383	2000 – 2009
891,891	7.550	2005 – 2006
5,424	7.550	2006 – 2012
10,437	7.569	2000 – 2009
105,417	8.110	2004 – 2011
3,584	8.110	2004 – 2005
3,497	8.110	2005 – 2011
50,733	8.193	2004 – 2011
16,700	8.769	2000 – 2010
20,875	8.927	2000 – 2010
10,438	8.996	2000 – 2010
4,341	9.010	2003 – 2004
693,826	9.010	2003 – 2010
13,548	9.010	2004 – 2010
296	10.770	2003 – 2004
71,245	10.770	2003 – 2010
296	10.770	2004 – 2010

24 Authorised and issued share capital (continued)

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
617,782	2.299	2000 – 2003
684,026	9.186	2000 – 2006
81,626	9.186	2000 – 2007
1,624,689	14.767	2000 – 2007
1,986,947	33.200	2005 – 2012
149,125	34.057	2000 – 2008
2,881	34.702	2005 – 2012
8,644	34.702	2007 – 2012
1,602,676	35.380	2004 – 2011
4,175	44.610	2000 – 2009
732,638	44.611	2000 – 2009
419,566	46.475	2002 – 2009
50,786	46.556	2000 – 2009
11,481	48.204	2000 – 2010
8,350	48.802	2000 – 2009
4,175	50.299	2000 – 2010
834,920	51.048	2000 – 2010
16,700	51.871	2000 – 2009
55,984	53.030	2005 – 2012
25,150	53.443	2000 – 2009
86,005	54.042	2000 – 2009
430,816	54.050	2005 – 2012
8,350	55.314	2000 – 2009
75,150	56.287	2000 – 2009
12,525	57.186	2000 – 2009
6,976	57.338	2003 – 2010
52,751	58.238	2004 – 2011
20,589	58.886	2004 – 2011
3,341	59.656	2000 – 2010
2,088	60.329	2000 – 2010
6,263	60.479	2000 – 2010
91,363	62.110	2003 – 2010
2,415	62.110	2005 – 2010
329,850	63.263	2003 – 2010
10,438	63.698	2000 – 2010
2,923	63.773	2000 – 2010
8,350	64.371	2000 – 2010
7,966	66.692	2000 – 2010
3,340	67.066	2000 – 2010
4,175	68.488	2000 – 2010
11,690	71.781	2000 – 2010
1,587	72.605	2000 – 2010
36,482	84.485	2003 – 2010
11,690	84.731	2000 – 2010

WPP Worldwide Share Ownership Program

As at 31 December 2002, unexercised options over ordinary shares of 3,739,675 and unexercised options over ADRs of 349,190 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
130,875	2.700	2000 – 2007
365,625	3.400	2001 – 2008
86,800	4.210	2005 – 2012
21,125	4.210	2005 – 2013
17,625	5.210	2004 – 2011
508,025	5.320	2002 – 2009
14,000	5.320	2003 – 2009
21,375	5.990	2004 – 2011
1,018,875	7.180	2005 – 2012
22,000	7.180	2006 – 2012
811,000	7.790	2003 – 2010
10,375	7.790	2003 – 2011
698,225	7.960	2004 – 2011
13,750	7.960	2005 – 2011

24 Authorised and issued share capital (continued)

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
146,150	56.480	2004 – 2011
203,040	53.030	2005 – 2012

Tempus Group plc 1998 Long Term Incentive Plan

As at 31 December 2002, unexercised options over ordinary shares of 421,443 have been granted under the Tempus Group plc 1998 Long Term Incentive Plan as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
243,063	2.260	2001 – 2008
56,713	4.920	2001 – 2011
12,147	4.930	2001 – 2011
49,957	4.970	2001 – 2009
4,721	4.980	2001 – 2009
20,254	5.580	2001 – 2011
34,588	6.000	2001 – 2010

The aggregate status of the WPP Share Option Schemes during 2002 was as follows:

Movement on options granted (represented in ordinary shares)

	1 January 2002 number	Granted number	Exercised number	Lapsed number	31 December 2002 number
WPP	38,315,390	20,392,177	(2,895,480)	(3,490,158)	52,321,929
Y&R	38,443,050	–	(5,198,517)	(1,346,315)	31,898,218
Tempus	421,443	–	–	–	421,443
	77,179,883	20,392,177	(8,093,997)	(4,836,473)	84,641,590

Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.318–10.770	4.077	84

Options outstanding over ADRs

Range of exercise prices $	Weighted average exercise price $	Weighted average contractual life Months
2.299–84.731	33.928	86

The weighted average fair value of options granted in the year calculated using the Black-Scholes model, was as follows:

	2002	2001	2000
Fair value of UK options (shares)	**196.7p**	212.0p	286.1p
Fair value of US options (ADRs)	**$13.95**	$13.65	$16.18
Weighted average assumptions:			
UK Risk-free interest rate	**4.51%**	4.73%	6.02%
US Risk-free interest rate	**3.01%**	3.42%	5.94%
Expected life (months)	**48**	36	36
Expected volatility	**45%**	50%	40%
Dividend yield	**1.0%**	0.6%	0.6%

Options are issued at an exercise price equal to market value on the date of grant.

The weighted average fair value of the option element of the awards made under the Leadership Equity Acquisition Plan ('LEAP') in the year, calculated using the Black-Scholes model, was as follows:

	2002	2001	2000
Fair value	**319.7p**	236.2p	299.9p
Weighted average assumptions:			
Risk-free interest rate	**5.06%**	5.00%	5.80%
Expected life (months)	**60**	48	48
Expected volatility	**45%**	40%	40%
Dividend yield	**1.0%**	0.6%	0.6%

The option element was granted at an exercise price equal to market value on the date of grant.

25 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 January 2000	**77.5**	**602.9**	**–**	**121.3**	**(123.2)**	**(345.3)**	**333.2**
2000 movements							
Ordinary shares issued in respect of acquisitions	30.2	–	547.3	2,383.3	–	–	2,960.8
Exercises of options granted on acquisition of Young & Rubicam Inc	2.9	62.5	(160.6)	160.6	–	(13.9)	51.5
Share issue costs charged to merger reserve	–	–	–	(35.0)	–	–	(35.0)
Other ordinary shares issued	0.6	43.6	–	–	–	(31.7)[1]	12.5
Currency translation movement	–	–	–	–	(133.0)	–	(133.0)
Retained profit for the financial year	–	–	–	–	–	206.9	206.9
Actuarial loss on defined benefit schemes	–	–	–	–	–	(27.0)	(27.0)
Balance at 31 December 2000	**111.2**	**709.0**	**386.7**	**2,630.2**	**(256.2)**	**(211.0)**	**3,369.9**
2001 movements							
Ordinary shares issued in respect of acquisitions	0.7	–	1.6	62.4	–	–	64.7
Share issue costs charged to merger reserve	–	–	–	(1.0)	–	–	(1.0)
Other ordinary shares issued	3.1	96.2	(149.7)	133.1	–	(14.5)[1]	68.2
Currency translation movement	–	–	–	–	(80.6)	–	(80.6)
Retained profit for the financial year	–	–	–	–	–	219.6	219.6
Actuarial loss on defined benefit schemes	–	–	–	–	–	(43.0)	(43.0)
Write-back of goodwill on disposals of interest in associate undertaking	–	–	–	–	–	2.0	2.0
Balance at 31 December 2001	**115.0**	**805.2**	**238.6**	**2,824.7**	**(336.8)**	**(46.9)**	**3,599.8**
2002 movements							
Ordinary shares issued in respect of acquisitions	**0.2**	**–**	**–**	**8.0**	**–**	**–**	**8.2**
Other ordinary shares issued	**0.7**	**32.4**	**(42.9)**	**39.0**	**–**	**(4.9)**[1]	**24.3**
Share issue costs charged to share premium account or merger reserve	**–**	**(1.0)**	**–**	**(2.4)**	**–**	**–**	**(3.4)**
Share cancellations	**(0.2)**	**–**	**–**	**–**	**0.2**	**(8.3)**	**(8.3)**
Currency translation movement	**–**	**–**	**–**	**–**	**82.3**	**–**	**82.3**
Retained profit for the financial year	**–**	**–**	**–**	**–**	**–**	**25.5**	**25.5**
Actuarial loss on defined benefit schemes	**–**	**–**	**–**	**–**	**–**	**(52.8)**	**(52.8)**
Balance at 31 December 2002	**115.7**	**836.6**	**195.7**	**2,869.3**	**(254.3)**	**(87.4)**	**3,675.6**

Other reserves at 31 December 2002 comprise: currency translation deficit £255.8 million (2001: £338.1 million, 2000: £257.5 million) and capital redemption reserve £1.5 million (2001: £1.3 million, 2000: £1.3 million).

The cumulative amount of goodwill written off against the Group's reserves, net of that relating to undertakings disposed of, is £1,158.4 million (2001: £1,158.4 million, 2000: £1,160.4 million).

Notes

[1] Represents the difference between the legal share capital and premium, recorded on the issue of new shares to satisfy option exercises, and the cash proceeds received on exercise.

Reconciliation of movements in consolidated share owners' funds for the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
Profit for the year	**88.0**	271.2	244.7
Ordinary dividends payable	**(62.5)**	(51.6)	(37.8)
	25.5	219.6	206.9
Exchange adjustments on foreign currency net investments	**82.3**	(80.6)	(133.0)
Ordinary shares issued in respect of acquisitions	**8.2**	64.7	2,960.8
Exercises of options granted on acquisition of Young & Rubicam Inc	**–**	–	51.5
Share issue costs charged to share premium account or merger reserve	**(3.4)**	(1.0)	(35.0)
Other share issues	**24.3**	68.2	12.5
Share cancellations	**(8.3)**	–	–
Actuarial loss on defined benefit schemes	**(52.8)**	(43.0)	(27.0)
Write-back of goodwill on disposal of interest in associate undertaking	**–**	2.0	–
Net additions to equity share owners' funds	**75.8**	229.9	3,036.7
Opening equity share owners' funds	**3,599.8**	3,369.9	333.2
Closing equity share owners' funds	**3,675.6**	3,599.8	3,369.9

26 Acquisitions

The Group undertook a number of acquisitions in the year. Goodwill arising on these acquisitions and reforecasts to initial goodwill calculations for acquisitions completed in prior periods was calculated as follows:

	Book value of net assets acquired £m	Fair value adjust-ments £m	Fair value £m	Cost of acquisi-tion £m	Goodwill £m
Acquisitions and reforecasts	62.0	(10.5)	51.5	206.5	155.0

Goodwill above of £155.0 million includes £144.8 million in respect of the acquisition of subsidiary undertakings and £10.2 million in respect of associate undertakings. Cash consideration for acquisitions is analysed in note 11.

Fair value adjustments of £10.5 million arising on these acquisitions include £3.2 million of additional tax liabilities and £7.3 million of other liabilities.

27 Principal operating subsidiary undertakings

The principal subsidiary undertakings of the Group are:

	Country of Incorporation
J. Walter Thompson Company, Inc	US
The Ogilvy Group, Inc	US
Young & Rubicam Inc	US
WPP Finance Co Limited	UK

With the exception of WPP Finance Co. Limited, which is involved in financing arrangements with other Group companies, all of these subsidiaries are operating companies. All of the above companies are 100% owned by the Group.

A more detailed list of the operating subsidiary undertakings is given on pages 10 and 11. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

Advantage has been taken of Section 231(5) of the Companies Act 1985 to list only those undertakings required by that provision, as an exhaustive list would involve a statement of excessive length.

28 Calculation of PBIT, PBT and headline earnings

Reconciliation of profit on ordinary activities before interest, taxation, fixed asset gains and write-downs to PBIT for the year ended 31 December:

	2002 £m	2001 £m	2000 £m
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**302.5**	546.3	417.4
Goodwill amortisation and impairment	**177.7**	14.8	15.1
PBIT	**480.2**	561.1	432.5
Net interest payable and similar charges	**86.4**	71.3	51.7
Interest cover on PBIT	**5.6 times**	7.9 times	8.4 times
Interest cover on PBIT (excluding FRS 17 interest)			
PBIT	**480.2**	561.1	432.5
Net interest payable and similar charges on net borrowings	**79.6**	67.5	50.3
Interest cover (excluding FRS 17 interest)	**6.0 times**	8.3 times	8.6 times

Reconciliation of profit on ordinary activities before taxation to PBT and headline earnings for the year ended 31 December:

	2002 £m	2001 £m	2000 £m
Profit on ordinary activities before taxation	**205.4**	411.0	365.7
Goodwill amortisation and impairment	**177.7**	14.8	15.1
Profits on disposal of fixed assets	**(9.2)**	(6.8)	–
Amounts written off fixed asset investments	**19.9**	70.8	–
Net interest charges on defined benefit pension schemes	**6.8**	3.8	1.4
PBT	**400.6**	493.6	382.2
Taxation on profit on ordinary activities	**(103.4)**	(126.1)	(109.7)
Minority interests	**(14.0)**	(13.7)	(11.3)
Headline earnings	**283.2**	353.8	261.2
Ordinary dividends	**62.5**	51.6	37.8
Dividend cover on headline earnings	**4.5 times**	6.9 times	6.9 times

Calculation of effective tax rate on headline profit before tax:

Taxation	**(103.4)**	(126.1)	(109.7)
Tax on investment gains and other items	**–**	(6.9)	–
Taxation on headline profit before tax	**(103.4)**	(133.0)	(109.7)
PBT	**400.6**	493.6	382.2
Effective tax rate on headline profit before tax	**25.8%**	26.9%	28.7%

Company balance sheet

As at 31 December 2002

	Notes	2002 £m	2001 £m	2000 £m
Fixed assets				
Tangible assets	29	**17.0**	15.4	13.4
Investments	30	**6,846.3**	7,116.7	6,042.2
		6,863.3	7,132.1	6,055.6
Current assets				
Debtors (including amounts falling due after more than one year)	31	**839.9**	879.8	148.0
Cash at bank and in hand		**10.8**	4.3	49.2
		850.7	884.1	197.2
Creditors: amounts falling due within one year	32	**(1,810.8)**	(2,179.9)	(997.3)
Net current liabilities		**(960.1)**	(1,295.8)	(800.1)
Total assets less current liabilities		**5,903.2**	5,836.3	5,255.5
Creditors: amounts falling due after more than one year (including convertible bonds)	33	**(1,706.2)**	(670.2)	(192.9)
Net assets		**4,197.0**	5,166.1	5,062.6
Capital and reserves				
Called up share capital	34	**115.7**	115.0	111.2
Share premium account	34	**836.6**	805.2	709.0
Shares to be issued	34	**195.7**	238.6	386.7
Merger reserve	34	**2,905.3**	2,860.7	2,665.2
Other reserves	34	**91.7**	91.5	91.5
Profit and loss account	34	**52.0**	1,055.1	1,099.0
Equity share owners' funds		**4,197.0**	5,166.1	5,062.6

The accompanying notes form an integral part of this balance sheet.

Signed on behalf of the Board on 14 May 2003:

Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

As provided by Section 230, Companies Act 1985, the profit and loss account for the Company has not been presented. Included within the consolidated profit and loss account for the financial year is a loss of £932.3 million (2001: profit of £7.7 million, 2000: profit of £932.0 million) in respect of the Company. This includes dividend income received from subsidiaries of £54.0 million (2001: £0.1 million, 2000: £923.0 million) and an impairment charge of £940.6 million (2001: £Nil, 2000: £Nil). The impairment charge arose as a result of the transfer of a number of non-operating, holding companies within the Group. The impairment charge arising as a result of this internal reorganisation has been offset against the Company's non-distributable reserves. These non-distributable reserves arose from dividends in 2000 (£901.7 million) and 2002 (£38.9 million) from the investments which have been impaired. This has no impact on the Company's distributable reserves.

Notes to the Company balance sheet

29 Tangible fixed assets

The movements in 2002 and 2001 were as follows:

Costs:	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 2001	1.3	0.5	15.0	16.8
Additions	0.7	–	4.7	5.4
Disposals	–	(0.1)	–	(0.1)
31 December 2001	2.0	0.4	19.7	22.1
Additions	1.4	–	5.0	6.4
Disposals	(0.2)	(0.1)	(0.2)	(0.5)
31 December 2002	**3.2**	**0.3**	**24.5**	**28.0**

29 Tangible fixed assets (continued)

Depreciation:				
1 January 2001	0.4	0.3	2.7	3.4
Charge	0.4	–	3.0	3.4
Disposals	–	(0.1)	–	(0.1)
31 December 2001	0.8	0.2	5.7	6.7
Charge	0.5	–	4.3	4.8
Disposals	(0.2)	(0.1)	(0.2)	(0.5)
31 December 2002	**1.1**	**0.1**	**9.8**	**11.0**
Net book value:				
31 December 2002	**2.1**	**0.2**	**14.7**	**17.0**
31 December 2001	1.2	0.2	14.0	15.4
1 January 2001	0.9	0.2	12.3	13.4

Notes to the Company balance sheet (continued)

30 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Subsidiary undertakings £m	Own shares £m	Total £m
1 January 2001	5,882.0	160.2	6,042.2
Additions	3,033.8	103.3	3,137.1
Disposals	(2,014.1)	(13.1)	(2,027.2)
Other movements	(35.4)	–	(35.4)
31 December 2001	6,866.3	250.4	7,116.7
Additions	5,239.2	67.6	5,306.8
Disposals	(4,626.9)	(5.8)	(4,632.7)
Write-downs	(940.6)	–	(940.6)
Other movements	(3.9)	–	(3.9)
31 December 2002	**6,534.1**	**312.2**	**6,846.3**

Further details of the Company's holdings of own shares are detailed in note 15 to the consolidated balance sheet.

31 Debtors

The following are included in debtors:

	2002 £m	2001 £m	2000 £m
Amounts owed by subsidiary undertakings	**800.8**	826.7	112.2
Taxation and social security	**5.3**	6.8	–
Other debtors	**33.8**	46.3	35.8
	839.9	879.8	148.0

None of the above debtors fall due for repayment after more than one year.

32 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	2002 £m	2001 £m	2000 £m
Bank loans and overdrafts	**52.7**	85.7	10.9
Amounts due to subsidiary undertakings	**1,671.0**	1,968.5	912.2
Taxation and social security	**1.8**	–	0.8
Dividends proposed	**42.5**	35.2	28.5
Other creditors and accruals	**42.8**	90.5	44.9
	1,810.8	2,179.9	997.3

33 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	2002 £m	2001 £m	2000 £m
Bank loans	**617.8**	609.0	–
Convertible bond	**447.5**	–	–
Amounts due to subsidiary undertakings	**626.2**	49.4	182.7
Other creditors and accruals	**14.7**	11.8	10.2
	1,706.2	670.2	192.9

The following is an analysis of all bank loans and unsecured loan notes by year of repayment:

	2002 £m	2001 £m	2000 £m
Between one and two years	**227.4**	–	–
Between two and three years	**–**	213.3	–
Between three and four years	**–**	–	–
Between four and five years	**447.5**	–	–
Over five years	**390.4**	395.7	–

In March 2002, the Company issued £450 million of 2% convertible bonds due April 2007. These bonds are initially convertible into WPP ordinary shares at a share price of £10.75. Because the bonds are redeemable at a premium of 5.35% over par, the conversion price increases during the life of the bonds to £11.33 per share.

34 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	115.0	805.2	238.6	2,860.7	91.5	1,055.1
Ordinary shares issued in respect of acquisitions	0.2	–	–	8.0	–	–
Other ordinary shares issued	0.7	32.4	(42.9)	39.0	–	–
Share issue costs charged to share premium account or merger reserve	–	(1.0)	–	(2.4)	–	–
Share cancellations	(0.2)	–	–	–	0.2	(8.3)
Retained loss for the financial year	–	–	–	–	–	(994.8)
	115.7	**836.6**	**195.7**	**2,905.3**	**91.7**	**52.0**

Other reserves at 31 December 2002 comprise: currency translation deficit £37.2 million (2001: £37.2 million, 2000: £37.2 million), capital redemption reserve £1.5 million (2001: £1.3 million, 2000: £1.3 million) and capital reserve £127.4 million (2001: £127.4 million, 2000: £127.4 million).

At 31 December 2002 the Company's distributable reserves amounted to £52.0 million (2001: £153.4 million, 2000: £197.3 million). Further details of the Company's movements in share capital are shown in notes 24 and 25.

Reconciliation of movements in share owners' funds for the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
(Loss)/profit for the year	**(932.3)**	7.7	932.0
Ordinary dividends payable	**(62.5)**	(51.6)	(37.8)
	(994.8)	(43.9)	894.2
Ordinary shares issued in respect of acquisitions	**8.2**	64.7	2,960.8
Exercise of options granted on acquisition of Young & Rubicam Inc.	**–**	–	65.4
Other ordinary shares issued	**29.2**	82.7	44.2
Share issue costs charged to share premium account or merger reserve	**(3.4)**	–	–
Share cancellations	**(8.3)**	–	–
Net additions to equity share owners' funds	**(969.1)**	103.5	3,964.6
Opening equity share owners' funds	**5,166.1**	5,062.6	1,098.0
Closing equity share owners' funds	**4,197.0**	5,166.1	5,062.6

Reconciliation to US Accounting Principles (unaudited)

The following is an unaudited preliminary summary of the significant adjustments to net income and share owners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied.

An audited reconciliation of net income and share owners' funds measured under UK GAAP to US GAAP, including additional financial statement disclosures and further discussion of potential or actual differences that could apply, including presentational differences, will be included in the Company's Annual Report on Form 20-F to be filed with the Securities and Exchange Commission by 30 June 2003. The figures presented below are therefore subject to further change after the date of publication of the 2002 Annual Report and Accounts.

	Notes	2002 £m	2001 £m	2000 £m
		For the year ended 31 December		
Net income				
Profit attributable to ordinary share owners under UK GAAP		**88.0**	271.2	244.7
US GAAP adjustments:				
Reverse amortisation of goodwill	1	**32.0**	–	–
Amortisation of goodwill and other intangibles	1	**(13.4)**	(142.2)	(83.2)
Goodwill impairment	3	**(25.7)**	–	–
Executive compensation	1	**(11.0)**	(26.9)	(38.3)
Contingent consideration deemed as compensation	1	**(49.7)**	(23.1)	(8.6)
Accounting for derivatives	1	**48.9**	4.0	–
Pension accounting	1	**(5.5)**	–	–
Deferred tax items	1	**(10.1)**	(3.8)	8.3
		(34.5)	(192.0)	(121.8)
Net income as adjusted for US GAAP		**53.5**	79.2	122.9
Earnings per share				
Basic earnings per share as adjusted for US GAAP (p)	2	**4.8**	7.2	14.7
Diluted earnings per share as adjusted for US GAAP (p)	2	**4.7**	7.1	14.1

A reconciliation from UK to US GAAP in respect of earnings per share is shown in note 2.

	Notes	2002 £m	2001 £m	2000 £m
		As at 31 December		
Share owners' funds				
Share owners' funds under UK GAAP		**3,675.6**	3,599.8	3,369.9
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	**357.5**	773.4	834.5
Revaluation of investments marked to market	1	**–**	(5.3)	34.4
Contingent consideration deemed as compensation	1	**(81.4)**	(31.7)	(8.6)
Shares owned by ESOP	1	**(312.2)**	(250.4)	(160.2)
Accounting for derivatives	1	**52.9**	4.0	–
Pension accounting	1	**8.7**	9.3	40.0
Deferred tax items	1	**0.4**	10.5	14.3
Proposed final ordinary dividend, not yet declared	1	**42.5**	35.2	28.5
Other		**(3.2)**	(3.4)	(3.7)
		65.2	541.6	779.2
Share owners' funds as adjusted for US GAAP		**3,740.8**	4,141.4	4,149.1

Movement in share owners' funds under US GAAP

	2002 £m	2001 £m	2000 £m
Net income for the year under US GAAP	**53.5**	79.2	122.9
Prior year final dividend	**(35.2)**	(28.5)	(16.2)
Current year interim dividend	**(20.0)**	(16.4)	(9.3)
Retained earnings for the year	**(1.7)**	34.3	97.4
Ordinary shares issued in respect of acquisitions	**8.2**	64.7	3,225.3
Share issue costs charged to merger reserve	**(3.4)**	(1.0)	(35.0)
Share options exercised	**24.3**	68.2	64.0
Share cancellations	**(8.3)**	–	–
Shares owned by ESOP	**(61.8)**	(90.2)	(88.9)
Revaluation of investments marked to market	**5.3**	(39.7)	(6.8)
Exchange adjustments:			
– Revaluation of goodwill	**(408.6)**	81.4	(31.8)
– Foreign currency translation	**85.6**	(80.6)	(133.0)
Pension accounting	**(51.2)**	(73.7)	–
Goodwill write-back	**–**	2.0	–
Executive compensation	**11.0**	26.9	38.3
New additions to share owners' funds	**(400.6)**	(7.7)	3,129.5
Share owners' funds at 1 January	**4,141.4**	4,149.1	1,019.6
Share owners' funds at 31 December	**3,740.8**	4,141.4	4,149.1

Notes to the Reconciliation to US Accounting Principles (unaudited)

1 Significant differences between UK and US Accounting Principles

The Group's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable in the UK which differ in certain significant respects from those applicable in the US. These differences relate principally to the following items:

Long-lived assets

Goodwill and other intangibles

Under US and UK GAAP, purchase consideration in respect of subsidiaries acquired is allocated on the basis of fair values to the various net assets, including intangible fixed assets, of the subsidiaries at the dates of acquisition and any net balance is treated as goodwill. Under UK GAAP, and in accordance with Financial Reporting Standard No. 10 (FRS 10) (Goodwill and Intangible Assets), goodwill arising on acquisitions on or after 1 January 1998 has been capitalised as an intangible asset. For certain acquisitions, where the directors consider it more appropriate, goodwill is amortised over its useful life, up to a 20-year period from the date of acquisition. The remaining goodwill and intangible assets of the Group are considered to have an indefinite economic life for the reasons described in the note on accounting policies in the financial statements. Goodwill arising on acquisitions before 1 January 1998 was fully written off against share owners' funds, in accordance with the then preferred treatment under UK GAAP. Under US GAAP, for periods ending on or before 31 December 2001 goodwill was amortised on a straightline basis over the useful economic life, not to exceed 40 years.

The Group adopted SFAS 142 "Goodwill and other Intangible Assets" (SFAS 142) effective 1 January 2002. SFAS 142 directs that goodwill that has an indefinite useful life will not be amortised but rather will be tested annually for impairment. Intangible assets that have finite lives will continue to be amortised over their useful lives, but without constraint of an arbitrary ceiling. Going forward, the Group will carry out an annual impairment review of goodwill.

In 2002, an impairment charge of £25.7 million was recorded upon the adoption of SFAS 142.

The following analysis shows the impact on the Company's statement of operations of discontinuing goodwill amortisation had SFAS 142 been effective for all periods presented:

For the year ended 31 December	**2002**	2001	2000
Reported net income under US GAAP	**53.5**	79.2	122.9
Add back:			
Amortisation of goodwill and other indefinite-lived intangible assets	**–**	155.0	89.8
Tax benefit on goodwill amortisation	**–**	–	(1.0)
Adjusted net income under US GAAP	**53.5**	234.2	211.7
Basic earnings per share:			
Reported earnings	**4.8**	7.2	14.7
Add back: goodwill amortisation, net of tax	**–**	14.1	10.7
Adjusted earnings	**4.8**	21.3	25.4
Diluted earnings per share:			
Reported earnings	**4.7**	7.1	14.1
Add back: goodwill amortisation, net of tax	**–**	13.4	10.2
Adjusted earnings	**4.7**	20.5	24.3

Under UK GAAP, the Group carries corporate brand names as intangible fixed assets in the balance sheet. The initial recognition of the J. Walter Thompson corporate brand was booked as a revaluation in the year following acquisition and is not recognised under US GAAP. The Ogilvy & Mather and Young & Rubicam Inc brand names, acquired as part of The Ogilvy Group, Inc and Young & Rubicam Inc, respectively, were booked as acquisition adjustments to balance sheet assets acquired.

Under US GAAP, in accordance with the provisions of SFAS No. 141, Business Combinations (SFAS 141), the allocation of purchase consideration should include recognition of the fair value of identifiable intangible assets, as applicable, such as corporate brand and trade names, customer relationships and proprietary tools. As of 31 December 2002, the components of our intangible assets were as follows:

		As at 31 December 2002			As at 31 December 2001		
	Weighted average amortisation period	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m
Goodwill		5,220.8	(498.2)	4,722.6	5,645.7	(520.6)	5,125.1
Corporate brand names		775.0	(69.7)	705.3	775.0	(69.7)	705.3
Other intangible assets subject to amortisation:							
Trade names	10	20.8	(2.0)	18.8	16.5	(0.3)	16.2
Customer related	3	34.2	(10.8)	23.4	23.2	(1.3)	21.9
Purchased software and other proprietary tools	7	11.2	(4.6)	6.6	8.8	(2.2)	6.6
Total subject to amortisation	6	66.2	(17.4)	48.8	48.5	(3.8)	44.7

The estimated aggregate amortisation expense for each of the next five years is as follows: £16.1 million in 2003, £13.4 million in 2004, £4.6 million in 2005, £2.3 million in 2006 and £2.3 million in 2007.

Under UK GAAP, goodwill arising on acquisitions is calculated at the historical exchange rate when each transaction is initially accounted for, and is therefore not retranslated at the period end. Under US GAAP, goodwill is retranslated at the end of each period presented, resulting in foreign exchange translation loss of £408.6 million in 2002 (2001: gain of £81.4 million, 2000: loss of £31.8 million) being recognised in share owners' funds.

Tangible fixed assets

The Group evaluates the carrying value of its tangible fixed assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount, in accordance with the provisions of SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss would be recognised when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows if the asset is expected to be held and used.

Notes to the Reconciliation to US Accounting Principles (unaudited) (continued)

1 Significant differences between UK and US Accounting Principles (continued)

Contingent consideration
Under UK GAAP, the Group provides for contingent consideration as a liability when it considers the likelihood of payment as probable. Under US GAAP, contingent consideration is not recognised until the liability is determined beyond reasonable doubt. At 31 December 2002, the Group's liabilities for vendor payments under UK GAAP totalled £237.8 million (2001: £288.2 million, 2000: £302.3 million). As these liabilities are represented by goodwill arising on acquisitions, there is no net effect on share owners' funds. In certain transactions the Group considers that there is a commercial need to tie in vendors to the businesses acquired; however the directors believe that, in substance, payments made under earnouts represent purchase consideration rather than compensation for services. Under US GAAP, payments made to vendors which are conditional upon them remaining in employment with the company under earnout are required to be treated as compensation, except in rare instances, and the anticipated compensation expense is therefore accrued on a systematic basis over the earnout period.

Share consideration
Under UK GAAP, the share consideration for the acquisition of Young & Rubicam Inc was measured by reference to the opening share price on 4 October 2000 of £7.99, which was when the acquisition became effective. The relevant measurement date for US GAAP was 12 May 2000, being the date of the announcement of the proposed acquisition and its recommendation to share owners by the respective Boards of directors of WPP Group plc and Young & Rubicam Inc. The opening share price on 12 May was £8.45. This resulted in a purchase price which differed by £265 million and a corresponding difference in goodwill. The impact of this adjustment is reflected in goodwill amortisation through 31 December 2001.

Pension accounting
Under UK GAAP, pension costs are accounted for in accordance with FRS 17. Under US GAAP, pension costs are determined in accordance with the requirements of Statement of Financial Accounting Standards No 87, Employers' Accounting for Pensions (SFAS 87) and SFAS 88, Employers' Accounting and Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

The differences in accounting policy are primarily due to differing treatment of actuarial gains and losses which arise over the accounting period (as a result of investment returns and demographic assumptions differing from those previously assumed, and also the effect of changing actuarial assumptions). Under FRS 17, these actuarial gains and losses are immediately recognised in the Statement of Total Recognised Gains and Losses, whereas under SFAS 87 the actuarial gains and losses that at the beginning of the year exceed 10% of the greater of the value of the assets and the projected benefit obligation, are amortised over the future working lifetime of the scheme members.

Similarly, FRS 17 requires the cost of prior service costs to be expensed over the period in which the benefit vests, whereas SFAS 87 provides for these costs to be amortised over the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

Further, SFAS 87 requires the recognition of an additional liability to the extent that the liability in respect of any scheme does not cover the unfunded accumulated benefit obligation for that scheme.

The 2002 financial statements reflect a £5.5 million difference in the defined benefit pensions charge between UK GAAP and US GAAP. This is due to the fact that the Group's defined benefit schemes have recently experienced actuarial losses, primarily due to poor investment returns. The 2002 US GAAP charge therefore includes an amortisation component in respect of these losses, which is not reflected in the UK GAAP charge. In previous years, this amortisation component has not given rise to a material difference in the pensions charge. Additionally, the 2002 UK GAAP defined benefit pensions charge includes interest charges of £6.8 million (2001: £3.8 million, 2000: £1.4 million) that would be recognised as an operating expense under US GAAP.

Dividends
Under UK GAAP, final ordinary dividends are provided in the financial statements on the basis of recommendation by the directors. This requires subsequent approval by the share owners to become a legal obligation of the Group. Under US GAAP, dividends are provided only when the legal obligation to pay arises.

Deferred tax
Under UK GAAP, the Group accounts for deferred tax in accordance with FRS 19 (Deferred Tax) as described in the note on accounting policies in the financial statements. Under US GAAP, deferred taxes are accounted for on all temporary differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised.

Executive compensation
UK and US GAAP accounting for stock-based remuneration differ in certain circumstances. The principal differences are:

Under UK GAAP, the part of executive compensation satisfied in stock is charged through the profit and loss account at the cost to the Group of acquiring the stock. Under US GAAP such compensation is measured at the fair value of WPP common stock at the date the performance condition is met or the award vests with the employee. Differences occur under US GAAP as the WPP ESOP acquires stock before the liability to the employee arises.

Additionally, under UK GAAP stock options granted with performance criteria do not give rise to a profit and loss account charge provided that the exercise price is equal to the fair value of the stock at the date of grant. Under US GAAP stock options granted with performance criteria (other than a requirement for employment to continue) are subject to variable plan accounting under APB Opinion 25. Under variable plan accounting any appreciation in stock value from the date of grant to the date upon which the performance conditions are satisfied is charged to the profit and loss account on a systematic basis over the vesting period.

Shares owned by Employee Share Ownership Plan (ESOP)
Under UK GAAP, shares purchased by the ESOP are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, these shares are recorded at cost and deducted from share owners' equity.

The Group's ESOP comprises trusts which acquire WPP shares in the open market to fulfil obligations under the Group's stock-based compensation plans. These trusts do not meet the definition of an 'ESOP' under US GAAP.

Listed investments
Under UK GAAP, the carrying value of listed investments, where these represent an interest of less than 20%, is determined as cost less any provision for permanent impairment. Under US GAAP, such investments are marked to market and any resulting unrealised gain or loss is taken to share owners' funds. Where the decline in value is other than temporary, the resulting loss would be taken to the profit and loss account under both UK and US GAAP. The listed investments of the Group are generally considered to be 'available for sale' securities under US GAAP.

Accounting for Derivative Instruments and Hedging Activities
Effective 1 January 2001, the Group adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes requirements for certain guarantees. It also requires (for guarantees issued after January 1, 2003) that a guarantor must recognise, at the inception of a guarantee, a liability for the fair value of the obligations undertaken. The Statement requires that changes in the derivative's fair value be recognised currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The derivative financial instruments held by the Group are not designated and therefore do not qualify as accounting hedges resulting in the changes in the fair value of the derivative financial instruments being recognised in earnings.

Consolidated statement of cash flows
The consolidated statement of cash flows prepared under UK GAAP in accordance with FRS 1 presents substantially the same information as that required under US GAAP. Under US GAAP, however, there are certain differences from UK GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents. Cash flow under UK GAAP represents increases and decreases in cash, which comprises both cash in hand and overdrafts. Under US GAAP, cash flow represents increases or decreases in "cash and cash equivalents", which includes short-term, highly liquid investments with original maturities of less than 90 days, and excludes overdrafts.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends, management of liquid resources and financing activities. Under US GAAP, however, only three categories of cash flow activity are reported, being operating activities, investing activities and financing activities.

Notes to the Reconciliation to US Accounting Principles (unaudited) (continued)

2 Earnings per share – reconciliation from UK to US GAAP

Both basic and diluted earnings per share under US GAAP have been calculated by dividing the net income as adjusted for US GAAP differences by the weighted average number of shares in issue during the year. For the year ended 31 December 2002 both the $287.5 million convertible bond and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation. Had the convertible bonds been dilutive to earnings in 2002, incremental shares attributable to the assumed conversion of the bonds would have increased diluted shares outstanding by 58.2 million shares. In addition, options to purchase 19.8 million ordinary shares were outstanding at 31 December 2002 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the shares and, therefore, the effect would be antidilutive. For the year ended 31 December 2001 the $287.5 million convertible bond was dilutive and earnings were consequently adjusted by £3.6 million. The calculation of the weighted average number differs for UK and US GAAP purposes as follows:

Year ended 31 December 2002	Basic earnings per share No.	Diluted earnings per share No.
Under UK GAAP	1,110,556,878	1,136,548,459
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2002	–	–
Under US GAAP	1,110,556,878	1,136,548,459
Year ended 31 December 2001		
Under UK GAAP	1,101,937,750	1,157,080,255
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2001	–	2,047,943
Under US GAAP	1,101,937,750	1,159,128,198
Year ended 31 December 2000		
Under UK GAAP	834,280,801	865,978,000
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 2000	–	4,830,727
Under US GAAP	834,280,801	870,808,727

3 Implementation of SFAS 142

In June 2001, the FASB issued SFAS 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after 15 December 2001. SFAS 142 changed the accounting for goodwill from an amortisation method to an impairment-only approach. Thus, amortisation of goodwill, including goodwill recorded in past business combinations and amortisation of intangible assets with an indefinite life, ceased upon adoption of SFAS 142. For any acquisitions completed after 30 June 2001, goodwill and intangible assets with an indefinite life are not amortised. The Company adopted the provisions of SFAS 142 in full effective 1 January 2002.

The Company recognised an impairment loss of £25.7 million on the implementation of SFAS 142. Under UK GAAP, all such impaired goodwill had been included in the write-off against share owners' funds as of 1 January 1998, as more fully described in the note on accounting policies in the financial statements.

The subsequent annual test for impairment was performed as of the end of the year and an impairment loss of £145.7 million was recognised under UK GAAP and US GAAP. The impairment charge relates to a number of under-performing businesses in the Information, insight & consultancy, and Branding and identity, Healthcare and Specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill.

4 New US GAAP Accounting Pronouncements

The Group has considered the following recent US GAAP accounting pronouncements for their potential impact on our results of operations and financial position:

In June 2002, SFAS No.146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146) was issued. SFAS 146 requires that costs associated with exit or disposal activities, including restructuring charges, be recognised and measured initially at fair value only when the liability is incurred, and is effective for any such activities initiated after 31 December 2002. It has no effect on charges recorded for exit activities begun prior to this date. The Group does not expect that adoption of SFAS 146 will have a material impact on its consolidated results of operations or financial position.

In November 2002, Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45) was issued. This interpretation elaborates on the existing disclosure accounting and reporting standards under US GAAP requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The application of FIN 45 did not result in additional disclosure in our 2002 financial statements and is not expected to have a material impact on our consolidated results of operations or financial position.

In December 2002, SFAS No.148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148), was issued as an amendment of SFAS 123. The Group has elected to continue with its current practice of applying the recognition and measurement principles of APB 25 under US GAAP and has adopted the disclosure requirements of SFAS 148.

In January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities", an interpretation of ARB 51. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. It requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. It also requires certain disclosures by the primary beneficiary of a variable interest entity and by an enterprise that holds significant variable interests in a variable interest entity where the enterprise is not the primary beneficiary. FIN 46 is effective immediately to variable interest entities created after 31 January 2003 and to variable interest entities in which an enterprise obtains an interest after that date, and effective for the first fiscal year or interim period beginning after 15 June 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before 1 February 2003. FIN 46 requires an entity to disclose certain information regarding a variable interest entity, if when the Interpretation becomes effective, it is reasonably possible that an enterprise will consolidate or have to disclose information about that variable interest entity, regardless of the date on which the variable entity interest was created. The Group does not expect that when FIN 46 becomes effective that it will have to consolidate or disclose any information regarding variable interests.

The Emerging Issues Task Force ('EITF') of the FASB also released interpretive guidance covering several topics that impact our business. These topics include customer relationship intangible assets acquired (EITF 02-17) and vendor rebates (EITF 02-16). The application of this guidance did not have a material impact on our consolidated results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is applied prospectively and is effective for contracts entered into or modified after 30 June 2003, except for SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to 15 June 2003 and certain provisions relating to forward purchases and sales on securities that do not yet exist. The Company has not determined the effect, if any, that SFAS No. 149 will have on its consolidated financial statements.

Five-year summary

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Profit and loss					
Turnover (gross billings)	**18,028.7**	20,886.9	13,949.4	9,345.9	8,000.1
Revenue	**3,908.3**	4,021.7	2,980.7	2,172.6	1,918.4
Operating profit	**272.5**	505.5	379.4	265.0	229.1
Profit on ordinary activities before taxation	**205.4**	411.0	365.7	255.4	212.8
PBT[1]	**400.6**	493.6	382.2	256.9	212.8
Profit attributable to ordinary share owners	**88.0**	271.2	244.7	172.8	140.3
Balance sheet					
Fixed assets	**6,363.0**	6,376.2	5,389.0	1,313.9	942.9
Net current liabilities	**(524.3)**	(782.4)	(529.4)	(227.5)	(239.7)
Creditors: amounts falling due after more than one year	**(1,837.5)**	(1,711.5)	(1,279.6)	(652.5)	(401.5)
Provisions for liabilities and charges (including pension provision)	**(286.8)**	(241.4)	(185.9)	(92.2)	(77.9)
Net assets	**3,714.4**	3,640.9	3,394.1	341.7	223.8
Net (debt)/funds	**(722.7)**	(885.1)	(24.6)	91.9	134.3
Average net debt	**(1,343.0)**	(834.0)	(423.0)	(206.0)	(143.0)

	2002	2001	2000	1999	1998
Our people					
Revenue per employee (£000)	**77.5**	79.7	82.4	78.4	75.0
Gross profit per employee (£000)	**73.2**	75.1	75.7	67.0	63.8
Operating profit per employee (£000)	**5.4**	10.0	10.5	9.6	9.0
Average headcount	**50,417**	50,487	36,157	27,711	25,589
Share information					
Headline[2] – basic earnings per ordinary share	**25.5p**	32.1p	31.3p	23.1p	19.1p
– diluted earnings per ordinary share	**24.9p**	30.9p	30.3p	22.7p	18.8p
Standard – basic earnings per ordinary share	**7.9p**	24.6p	29.3p	22.9p	19.1p
– diluted earnings per ordinary share	**7.7p**	23.7p	28.4p	22.5p	18.8p
Dividends per share	**5.40p**	4.50p	3.75p	3.10p	2.56p
Share price – high	**811p**	889p	1,324p	996p	470p
– low	**391p**	460p	693p	359p	200p
Market capitalisation at year-end (£m)	**5,491.5**	8,736.8	9,631.2	7,598.3	2,803.8

Notes

[1] PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of PBT is set out in note 28.

[2] Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

The information on this page is unaudited.

Unaudited consolidated profit and loss account: euro illustration

For the year ended 31 December 2002

	2002 €m	2001 €m	2000 €m
Turnover (gross billings)	**28,683.7**	33,598.7	22,916.1
Cost of sales	**(22,465.6)**	(27,129.4)	(18,019.4)
Revenue	**6,218.1**	6,469.3	4,896.7
Direct costs	**(347.2)**	(373.2)	(401.8)
Gross profit	**5,870.9**	6,096.1	4,494.9
Operating costs excluding goodwill amortisation and impairment	**(5,154.7)**	(5,259.2)	(3,846.8)
Goodwill amortisation and impairment	**(282.7)**	(23.8)	(24.8)
Operating profit	**433.5**	813.1	623.3
Income from associates	**47.7**	65.6	62.4
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**481.2**	878.7	685.7
Profit on disposal of fixed assets	**14.6**	10.9	–
Amounts written off fixed asset investments	**(31.7)**	(113.9)	–
Net interest payable and similar charges on net borrowings	**(126.6)**	(108.6)	(82.6)
Net interest charges on defined benefit pension schemes	**(10.8)**	(6.1)	(2.3)
Net interest payable and similar charges	**(137.4)**	(114.7)	(84.9)
Profit on ordinary activities before taxation	**326.7**	661.0	600.8
Taxation on profit on ordinary activities	**(164.5)**	(202.8)	(180.2)
Profit on ordinary activities after taxation	**162.2**	458.2	420.6
Minority interests	**(22.3)**	(22.0)	(18.6)
Profit attributable to ordinary share owners	**139.9**	436.2	402.0
Ordinary dividends	**(99.4)**	(83.0)	(62.1)
Retained profit for the year transferred to reserves	**40.5**	353.2	339.9

PBIT[1]	**764.0**	902.5	710.5
PBIT[1] margin	**12.3%**	14.0%	14.5%
PBT[1]	**637.3**	793.9	627.9

Headline earnings per share[2]			
Basic earnings per ordinary share	**40.6¢**	51.6¢	51.4¢
Diluted earnings per ordinary share	**39.6¢**	49.7¢	49.8¢

Standard earnings per share			
Basic earnings per ordinary share	**12.6¢**	39.6¢	48.1¢
Diluted earnings per ordinary share	**12.3¢**	38.1¢	46.7¢

The consolidated profit and loss account and balance sheet have been presented in euros for illustrative purposes only using the approximate average rate for the year for the profit and loss account (2002: €1.5910 = £1, 2001: €1.6086 = £1, 2000: €1.6428 = £1) and the rate in effect on 31 December for the balance sheet (2002: €1.5345 = £1, 2001: €1.6322 = £1, 2000: €1.5912 = £1). This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into euros at the rates indicated.

Notes

[1] PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.
PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.
The calculation of PBIT and PBT is set out in note 28.

[2] Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.
The calculation of headline earnings is set out in note 28.

Unaudited consolidated balance sheet: euro illustration

As at 31 December 2002

	2002 €m	2001 €m	2000 €m
Fixed assets			
Intangible assets:			
Corporate brands	**1,457.8**	1,550.6	1,511.6
Goodwill	**6,762.5**	7,246.8	5,565.0
Tangible assets	**579.0**	706.4	620.9
Investments	**964.7**	903.4	877.5
	9,764.0	10,407.2	8,575.0
Current assets			
Stocks and work in progress	**447.5**	386.7	383.6
Debtors	**3,462.4**	3,903.9	3,470.4
Trade debtors within working capital facility:			
Gross debts	**591.9**	540.3	739.7
Non-returnable proceeds	**(333.6)**	(134.7)	(368.5)
	258.3	405.6	371.2
Current asset investments (short-term bank and escrow deposits)	**292.2**	125.4	–
Cash at bank and in hand	**1,057.4**	955.8	1,698.8
	5,517.8	5,777.4	5,924.0
Creditors: amounts falling due within one year	**(6,322.3)**	(7,054.4)	(6,766.4)
Net current liabilities	**(804.5)**	(1,277.0)	(842.4)
Total assets less current liabilities	**8,959.5**	9,130.2	7,732.6
Creditors: amounts falling due after more than one year (including convertible bonds)	**(2,819.7)**	(2,793.5)	(2,036.1)
Provisions for liabilities and charges	**(156.5)**	(173.2)	(156.2)
Net assets excluding pension provision	**5,983.3**	6,163.5	5,540.3
Pension provision	**(283.6)**	(220.8)	(139.6)
Net assets including pension provision	**5,699.7**	5,942.7	5,400.7

	2002 €m	2001 €m	2000 €m
Capital and reserves			
Called up share capital	**177.5**	187.7	176.9
Share premium account	**1,283.8**	1,314.2	1,128.2
Shares to be issued	**300.3**	389.4	615.3
Merger reserve	**4,402.9**	4,610.5	4,185.2
Other reserves	**(390.2)**	(549.6)	(407.7)
Profit and loss account	**(134.1)**	(76.6)	(335.7)
Equity share owners' funds	**5,640.2**	5,875.6	5,362.2
Minority interests	**59.5**	67.1	38.5
Total capital employed	**5,699.7**	5,942.7	5,400.7

Unaudited consolidated profit and loss account: to present the impact of US transitional guidelines on the expensing of share options, for illustrative purposes only

For the year ended 31 December 2002

	2002 £m	2001 £m	2000 £m
Turnover (gross billings)	**18,028.7**	20,886.9	13,949.4
Cost of sales	**(14,120.4)**	(16,865.2)	(10,968.7)
Revenue	**3,908.3**	4,021.7	2,980.7
Direct costs	**(218.2)**	(232.0)	(244.6)
Gross profit	**3,690.1**	3,789.7	2,736.1
Operating costs excluding goodwill amortisation and impairment	**(3,239.9)**	(3,269.4)	(2,341.6)
Fair value of share options[3]	**(5.0)**	–	–
Goodwill amortisation and impairment	**(177.7)**	(14.8)	(15.1)
Operating profit	**267.5**	505.5	379.4
Income from associates	**30.0**	40.8	38.0
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**297.5**	546.3	417.4
Profit on disposal of fixed assets	**9.2**	6.8	–
Amounts written off fixed asset investments	**(19.9)**	(70.8)	–
Net interest payable and similar charges on net borrowings	**(79.6)**	(67.5)	(50.3)
Net interest charges on defined benefit pension schemes	**(6.8)**	(3.8)	(1.4)
Net interest payable and similar charges	**(86.4)**	(71.3)	(51.7)
Profit on ordinary activities before taxation	**200.4**	411.0	365.7
Taxation on profit on ordinary activities	**(102.7)**	(126.1)	(109.7)
Profit on ordinary activities after taxation	**97.7**	284.9	256.0
Minority interests	**(14.0)**	(13.7)	(11.3)
Profit attributable to ordinary share owners	**83.7**	271.2	244.7
Ordinary dividends	**(62.5)**	(51.6)	(37.8)
Retained profit for the year transferred to reserves	**21.2**	219.6	206.9

	2002	2001	2000
PBIT[1]	**475.2**	561.1	432.5
PBIT[1] margin	**12.2%**	14.0%	14.5%
PBT[1]	**395.6**	493.6	382.2
Headline earnings per share[2]			
Basic earnings per ordinary share	**25.1p**	32.1p	31.3p
Diluted earnings per ordinary share	**24.5p**	30.9p	30.3p
Standard earnings per share			
Basic earnings per ordinary share	**7.5p**	24.6p	29.3p
Diluted earnings per ordinary share	**7.4p**	23.7p	28.4p
Headline earnings per ADR[2, 4]			
Basic earnings per ADR	**$1.89**	$2.31	$2.38
Diluted earnings per ADR	**$1.84**	$2.22	$2.30
Standard earnings per ADR[4]			
Basic earnings per ADR	**$0.56**	$1.77	$2.22
Diluted earnings per ADR	**$0.56**	$1.71	$2.15

Notes

1 PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.
PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes.
The calculation of PBIT and PBT is set out in note 28.

2 Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. The calculation of headline earnings is set out in note 28.

3 Expensing of share options is consistent with current US transitional guidelines under the prospective adoption method contained within SFAS No.148, Accounting for Stock-Based Compensation-Transition and Disclosure.

4 These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 107. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

Independent auditors' report

Independent auditors' report to the members of WPP Group plc

We have audited the financial statements of WPP Group plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities in the Directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable UK law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the directors' remuneration report.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant UK legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with UK auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

16 May 2003

Financial glossary

Term used in annual report	US equivalent or brief description
Allotted	Issued
ADRs/ADSs	American Depositary Receipts/American Depositary Shares. The Group uses ADR and ADS interchangeably
Average net debt	Average net debt is calculated as the average daily net bank borrowings of the Group, derived from the Group's automated banking system. Net debt at a period end is calculated as the sum of the net bank borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Combined Code	The 'Principles of Good Governance' and the provisions of the 'Code of Best Practice' issued by the Hampel Committee on Corporate Governance and the London Stock Exchange
Constant currency	The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying 2002 exchange rates to local currency reported results for the current and prior year. This gives a US dollar-denominated income statement and balance sheet which excludes any variances attributable to foreign exchange rate movements
Creditors	Accounts payable
Creditors: amounts falling due after more than one year	Long-term debt
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
ESOP	Employee share ownership plan
EURIBOR	The euro area inter-bank offered rate for the euro
Finance lease	Capital lease
Free cash flow	Free cash flow is calculated as PBIT (see below) before equity income and depreciation (including dividends received from associates, proceeds from the issue of shares, and proceeds from disposal of tangible fixed assets and investments), less tax paid, returns on investments and servicing of finance and the purchase of tangible fixed assets
Freehold	Ownership with absolute rights in perpetuity
FRS	Financial reporting standard in the UK
Interest receivable	Interest income
Hampel Committee	UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees
Higgs Report	Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors
LIBOR	The London inter-bank offered rate
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
PBIT	Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs
PBT	Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes
Profit attributable to ordinary share owners	Net income

Term used in annual report	US equivalent or brief description
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
Proforma ('like for like')	Proforma comparisons are calculated as follows: current year actual results (which include acquisitions from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions for the commensurate period in the prior year. The Group uses 'proforma' and 'like for like' interchangeably
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
Sarbanes-Oxley Act	An Act passed in the US to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Short leasehold	A short lease is where the portion of the term remaining unexpired at the end of the financial year is less than 50 years
Smith Report	Report in the UK by Sir Robert Smith on the role of audit committees
Stocks	Inventories
Tangible fixed assets	Property and equipment
Turnbull Report	Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange