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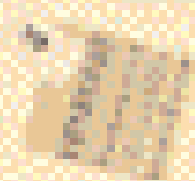
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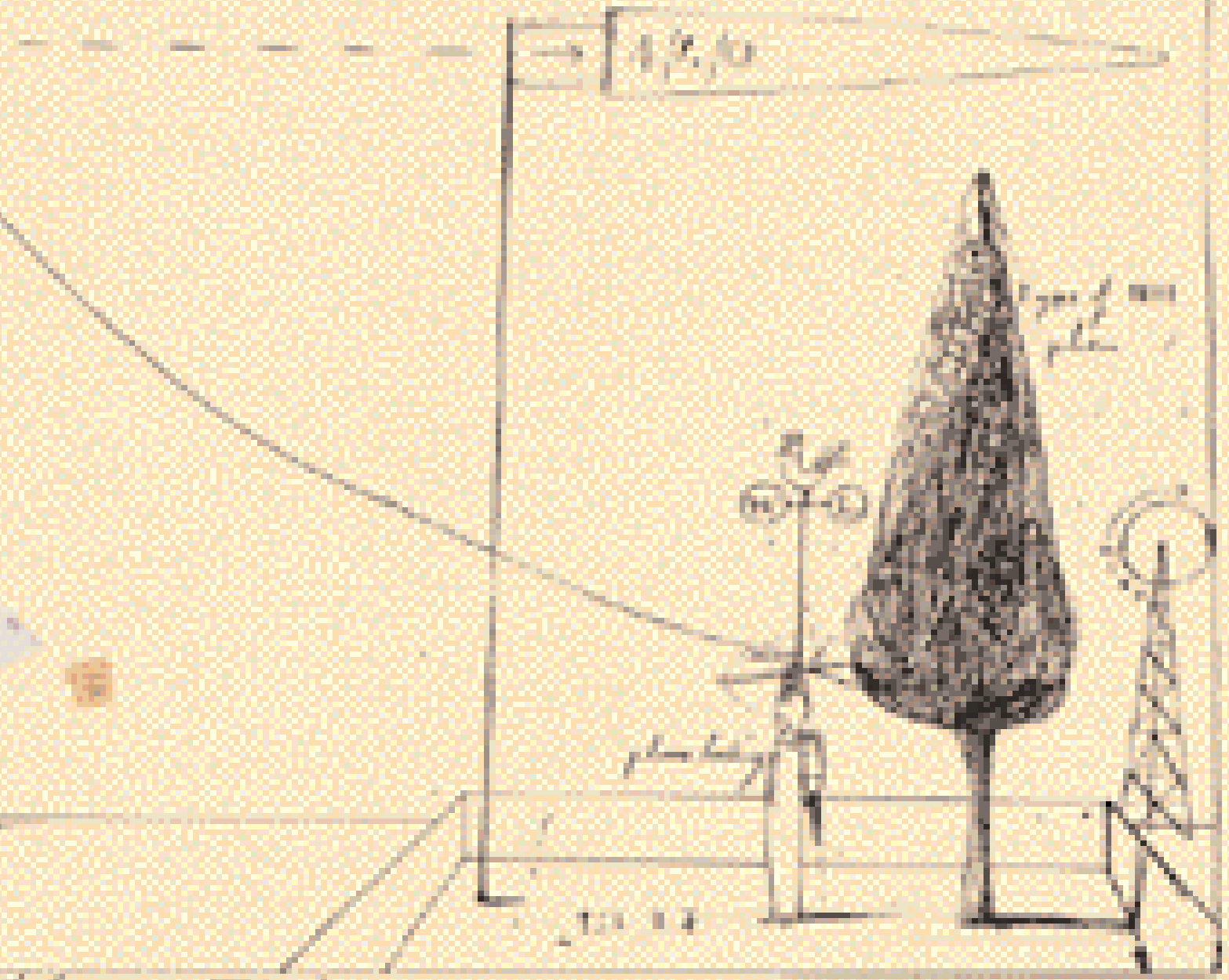
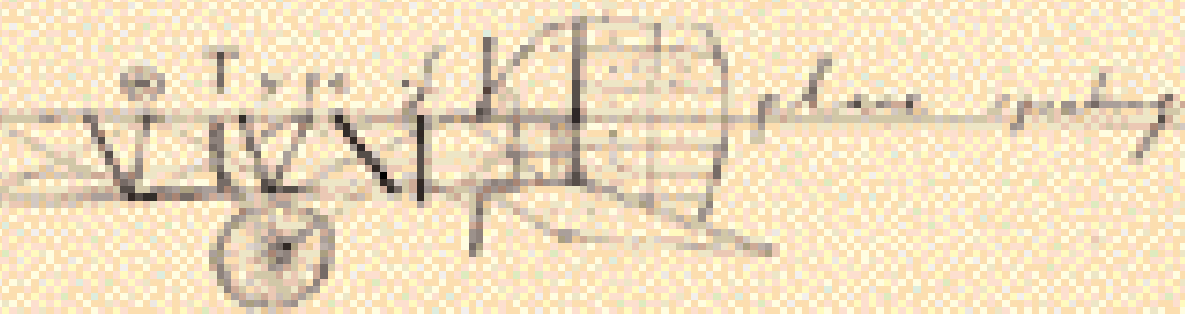
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IN ROUTE

# ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the Group's principal accounting policies, which have been applied consistently throughout the year and the preceding year (except as disclosed in accounting policy 14), is set out below.

## 1 Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

## 2 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.

## 3 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.

The directors are of the opinion that the goodwill and intangible assets of the Group have an infinite 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 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 infinite life of these intangible assets, it is not possible to quantify its impact.

## 4 Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

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

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## 5 Investments

Except as stated below, fixed asset investments are shown at cost less provision for diminution in value.

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 Group balance sheet at 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.

## 6 Stocks and work in progress

Work in progress is valued at cost or on a percentage of completion basis. Cost comprises 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.

## 7 Debtors

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

## 8 Taxation

Corporate taxes are payable on taxable profits at current rates. Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates of tax expected to be in force at the time of the reversal.

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## 9 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 accrual made.

## 10 Pension costs

The charge to the profit and loss account in respect of defined benefit pension schemes is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated to achieve a substantially level percentage of the current and expected future pensionable payroll. Variations from regular costs are allocated to the profit and loss account over a period approximating to the scheme members' average remaining service lives. For defined contribution schemes, contributions are charged to the profit and loss account as incurred.

## 11 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.

## 12 Turnover, cost of sales and revenue

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. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

## 13 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 investments in these companies are translated at year-end exchange rates. Exchange differences arising from retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

## 14 Changes in accounting policies

The Group adopted FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) and FRS 13 (Derivatives and Other Financial Instruments) during the year. There has been no material impact on the financial statements as a result of the adoption of these new standards.

# Consolidated profit and loss account

For the year ended 31 December 1999

	Notes	1999 £m	1998 £m	1997 £m	1999 \$m	1998 \$m	1997 \$m
<b>Turnover (gross billings)</b>	1	<b>9,345.9</b>	8,000.1	7,287.3	<b>15,119.8</b>	13,259.4	11,937.3
Cost of sales		<b>(7,173.3)</b>	(6,081.7)	(5,540.6)	<b>(11,605.0)</b>	(10,079.8)	(9,076.1)
<b>Revenue</b>	1	<b>2,172.6</b>	1,918.4	1,746.7	<b>3,514.8</b>	3,179.6	2,861.2
Direct costs		<b>(317.3)</b>	(285.9)	(278.0)	<b>(513.3)</b>	(473.9)	(455.4)
<b>Gross profit</b>		<b>1,855.3</b>	1,632.5	1,468.7	<b>3,001.5</b>	2,705.7	2,405.8
Operating costs	2	<b>(1,591.8)</b>	(1,403.4)	(1,273.8)	<b>(2,575.2)</b>	(2,326.0)	(2,086.6)
<b>Operating profit</b>		<b>263.5</b>	229.1	194.9	<b>426.3</b>	379.7	319.2
Income from associates		<b>27.3</b>	16.1	10.6	<b>44.2</b>	26.7	17.4
<b>Profit on ordinary activities before interest and taxation</b>	1	<b>290.8</b>	245.2	205.5	<b>470.5</b>	406.4	336.6
Net interest payable and similar charges	4	<b>(35.4)</b>	(32.4)	(28.1)	<b>(57.3)</b>	(53.7)	(46.0)
<b>Profit on ordinary activities before taxation</b>		<b>255.4</b>	212.8	177.4	<b>413.2</b>	352.7	290.6
Taxation on profit on ordinary activities	5	<b>(76.6)</b>	(67.0)	(56.7)	<b>(123.9)</b>	(111.0)	(92.9)
<b>Profit on ordinary activities after taxation</b>		<b>178.8</b>	145.8	120.7	<b>289.3</b>	241.7	197.7
Minority interests		<b>(6.0)</b>	(5.5)	(4.7)	<b>(9.7)</b>	(9.1)	(7.7)
<b>Profit attributable to ordinary share owners</b>		<b>172.8</b>	140.3	116.0	<b>279.6</b>	232.6	190.0
Ordinary dividends	6	<b>(24.0)</b>	(19.6)	(15.7)	<b>(38.8)</b>	(32.5)	(25.7)
<b>Retained profit for the year</b>		<b>148.8</b>	120.7	100.3	<b>240.8</b>	200.1	164.3
<b>Earnings per share (net basis)</b>							
	7						
Basic earnings per ordinary share		<b>22.9p</b>	19.1p	15.8p	<b>37.0¢</b>	31.7¢	25.9¢
Diluted earnings per ordinary share		<b>22.5p</b>	18.8p	15.7p	<b>36.4¢</b>	31.2¢	25.7¢
<b>Ordinary dividend per share</b>							
	6						
Interim dividend		<b>1.0p</b>	0.84p	0.7p	<b>1.62¢</b>	1.39¢	1.14¢
Final dividend		<b>2.1p</b>	1.72p	1.43p	<b>3.40¢</b>	2.85¢	2.35¢
<b>Earnings per ADR (net basis)</b>							
Basic earnings per ADR		<b>114.5p</b>	95.5p	79.0p	<b>\$1.85</b>	\$1.58	\$1.30
Diluted earnings per ADR		<b>112.5p</b>	94.0p	78.5p	<b>\$1.82</b>	\$1.56	\$1.29
<b>Ordinary dividend per ADR (net)</b>							
Interim		<b>5.0p</b>	4.2p	3.5p	<b>8.1¢</b>	7.0¢	5.7¢
Final		<b>10.5p</b>	8.6p	7.2p	<b>17.0¢</b>	14.3¢	11.8¢

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. Solely for convenience, the financial statements set out on pages 58 and 60 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (1999: \$1.6178 = £1, 1998: \$1.6574 = £1, 1997: \$1.6381 = £1) and the rate in effect on 31 December for the balance sheet (1999: \$1.6182 = £1, 1998: \$1.6638 = £1, 1997: \$1.6454 = £1).

This translation 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.

No operations with a material impact on the Group's results were acquired or discontinued. 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 23.

Comparative figures in the profit and loss account have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR.

## Consolidated cash flow statement

For the year ended 31 December 1999

	Notes	1999 £m	1998 £m	1997 £m
<b>Net cash inflow from operating activities</b>	9	<b>348.5</b>	256.0	283.0
Dividends received from associates		4.3	3.4	2.8
Return on investments and servicing of finance	10	(37.1)	(28.7)	(30.5)
United Kingdom and overseas tax paid		(58.4)	(59.0)	(54.0)
Capital expenditure and financial investment	10	(80.5)	(82.1)	(45.8)
Acquisition payments	10	(202.2)	(115.5)	(68.5)
Equity dividends paid		(21.1)	(16.6)	(13.5)
<b>Net cash (outflow)/inflow before financing</b>		<b>(46.5)</b>	(42.5)	73.5
Net cash inflow/(outflow) from financing	10	270.0	78.1	(142.3)
Increase/(decrease) in cash and overdrafts for the year		223.5	35.6	(68.8)
Translation difference		(0.6)	0.9	(13.8)
Balance of cash and overdrafts at beginning of year		328.5	292.0	374.6
<b>Balance of cash and overdrafts at end of year</b>		<b>551.4</b>	328.5	292.0
<b>Reconciliation of net cash flow to movement in net funds:</b>				
<b>Increase/(decrease) in cash and overdrafts for the year</b>		<b>223.5</b>	35.6	(68.8)
Cash (inflow)/outflow from (increase)/decrease in debt financing		(258.0)	(95.2)	126.1
Other movements		(1.7)	(0.9)	(1.0)
Translation difference		(6.2)	0.1	(20.8)
<b>Movement in net funds in the year</b>		<b>(42.4)</b>	(60.4)	35.5
<b>Net funds at beginning of year</b>	8	<b>134.3</b>	194.7	159.2
<b>Net funds at end of year</b>	8	<b>91.9</b>	134.3	194.7

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 1999

	Notes	1999 £m	1998 £m	1997 £m
Profit for the financial year		172.8	140.3	116.0
Exchange adjustments on foreign currency net investments	23	(31.2)	4.0	(40.1)
<b>Total recognised gains and losses relating to the year</b>		<b>141.6</b>	144.3	75.9

The accompanying note forms an integral part of this statement of total recognised gains and losses.

# Consolidated balance sheet

As at 31 December 1999

	Notes	1999 £m	1998 £m	1997 £m	1999 \$m	1998 \$m	1997 \$m
<b>Fixed assets</b>							
Intangible assets							
Corporate brands	12	350.0	350.0	350.0	566.4	582.3	575.9
Goodwill	12	410.3	158.0	–	663.9	262.9	–
Tangible assets							
Investments	14	356.9	268.2	70.5	577.6	446.2	116.0
		<b>1,313.9</b>	942.9	564.0	<b>2,126.2</b>	1,568.8	928.0
<b>Current assets</b>							
Stocks and work in progress	15	113.5	107.3	99.7	183.7	178.5	164.0
Debtors	16	1,040.4	893.1	827.6	1,683.6	1,485.9	1,361.7
Debtors within working capital facility:							
Gross debts	17	345.7	294.5	335.2	559.4	490.0	551.5
Non-returnable proceeds		(214.1)	(209.2)	(211.7)	(346.4)	(348.1)	(348.3)
		<b>131.6</b>	85.3	123.5	<b>213.0</b>	141.9	203.2
Cash at bank and in hand		607.0	423.9	364.5	982.1	705.3	599.7
		<b>1,892.5</b>	1,509.6	1,415.3	<b>3,062.4</b>	2,511.6	2,328.6
<b>Creditors: amounts falling due within one year</b>	18	<b>(2,148.0)</b>	(1,777.3)	(1,701.6)	<b>(3,475.9)</b>	(2,957.1)	(2,799.8)
<b>Net current liabilities</b>		<b>(255.5)</b>	(267.7)	(286.3)	<b>(413.5)</b>	(445.5)	(471.2)
<b>Total assets less current liabilities</b>		<b>1,058.4</b>	675.2	277.7	<b>1,712.7</b>	1,123.3	456.8
<b>Creditors: amounts falling due after more than one year</b>							
	19	<b>(652.5)</b>	(401.5)	(221.5)	<b>(1,055.8)</b>	(668.0)	(364.5)
<b>Provisions for liabilities and charges</b>	20	<b>(79.2)</b>	(77.9)	(74.5)	<b>(128.2)</b>	(129.6)	(122.6)
<b>Net assets/(liabilities)</b>		<b>326.7</b>	195.8	(18.3)	<b>528.7</b>	325.7	(30.3)
<b>Capital and reserves</b>							
Called up share capital	22,23	77.5	76.6	73.6	125.4	127.4	121.1
Share premium account	23	602.9	562.9	421.6	975.6	936.5	693.7
Goodwill write-off reserve	23	–	–	(1,160.4)	–	–	(1,909.3)
Other reserves	23	(1.9)	28.5	78.4	(3.1)	47.4	129.0
Profit and loss account	23	(360.3)	(480.3)	561.6	(583.0)	(799.1)	924.0
<b>Equity share owners' funds</b>		<b>318.2</b>	187.7	(25.2)	<b>514.9</b>	312.2	(41.5)
Minority interests		8.5	8.1	6.9	13.8	13.5	11.2
<b>Total capital employed</b>		<b>326.7</b>	195.8	(18.3)	<b>528.7</b>	325.7	(30.3)

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

Signed on behalf of the Board on 10 May 2000:

**Sir Martin Sorrell**  
Group chief executive

**P W G Richardson**  
Group finance director

# Notes to the consolidated profit and loss account

## 1 Segment information

The Group is the 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 and consultancy, public relations and public affairs, and branding and identity, healthcare and specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the United Kingdom 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:

	1999 £m	Change %	1998 £m	Change %	1997 £m
<b>Turnover</b>					
United Kingdom	1,133.7	25.7	902.1	11.5	809.0
United States	4,021.3	13.8	3,534.9	11.9	3,159.7
Continental Europe	2,230.2	21.1	1,841.2	19.6	1,539.0
Canada, Asia Pacific, Latin America, Africa & Middle East	1,960.7	13.9	1,721.9	(3.2)	1,779.6
	<b>9,345.9</b>	<b>16.8</b>	<b>8,000.1</b>	<b>9.8</b>	<b>7,287.3</b>
<b>Revenue</b>					
United Kingdom	434.7	10.5	393.5	17.8	334.0
United States	915.2	19.7	764.4	9.1	700.8
Continental Europe	426.2	7.6	396.0	17.8	336.2
Canada, Asia Pacific, Latin America, Africa & Middle East	396.5	8.8	364.5	(3.0)	375.7
	<b>2,172.6</b>	<b>13.3</b>	<b>1,918.4</b>	<b>9.8</b>	<b>1,746.7</b>
<b>PBIT<sup>1</sup></b>					
United Kingdom	51.5	22.0	42.2	27.9	33.0
United States	139.0	24.6	111.6	26.2	88.4
Continental Europe	55.8	1.5	55.0	37.2	40.1
Canada, Asia Pacific, Latin America, Africa & Middle East	44.5	22.3	36.4	(17.3)	44.0
	<b>290.8</b>	<b>18.6</b>	<b>245.2</b>	<b>19.3</b>	<b>205.5</b>

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	1999 £m	Change %	1998 £m	Change %	1997 £m
<b>Turnover</b>					
Advertising, media investment management	7,690.1	16.8	6,582.5	7.6	6,115.8
Information & consultancy	425.5	8.6	391.9	31.6	297.7
Public relations & public affairs	199.1	20.9	164.7	44.0	114.4
Branding & identity, healthcare and specialist communications	1,031.2	19.8	861.0	13.4	759.4
	<b>9,345.9</b>	<b>16.8</b>	<b>8,000.1</b>	<b>9.8</b>	<b>7,287.3</b>
<b>Revenue</b>					
Advertising, media investment management	1,013.1	6.5	951.3	4.1	914.1
Information & consultancy	419.7	14.3	367.2	23.3	297.7
Public relations & public affairs	178.9	32.7	134.8	17.8	114.4
Branding & identity, healthcare and specialist communications	560.9	20.6	465.1	10.6	420.5
	<b>2,172.6</b>	<b>13.3</b>	<b>1,918.4</b>	<b>9.8</b>	<b>1,746.7</b>
<b>PBIT<sup>1</sup></b>					
Advertising, media investment management	155.9	10.3	141.3	7.1	131.9
Information & consultancy	42.1	7.1	39.3	51.7	25.9
Public relations & public affairs	23.9	52.2	15.7	70.7	9.2
Branding & identity, healthcare and specialist communications	68.9	40.9	48.9	27.0	38.5
	<b>290.8</b>	<b>18.6</b>	<b>245.2</b>	<b>19.3</b>	<b>205.5</b>

<sup>1</sup>PBIT: Profit on ordinary activities before interest and taxation.

## 2 Operating costs

	1999 £m	1998 £m	1997 £m
Total staff costs (note 3)	1,091.3	952.9	877.8
Establishment costs	158.3	142.4	133.9
Other operating expenses (net)	341.3	307.2	262.0
Loss on sale of tangible fixed assets	0.9	0.9	0.1
	<b>1,591.8</b>	<b>1,403.4</b>	<b>1,273.8</b>

### Operating expenses include:

Depreciation	42.2	33.7	29.1
Operating lease rentals:			
Property (excluding real estate taxes)	83.1	72.5	71.9
Plant and machinery	19.6	16.4	15.0
	<b>102.7</b>	<b>88.9</b>	<b>86.9</b>

### Auditors' remuneration:

Audit fees			
- Arthur Andersen	2.4	2.0	1.8
- other	0.3	0.3	0.2
	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>

### Fees in respect of other advisory work

	3.7	2.8	2.4
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Fees paid to the auditors in respect of other advisory work include advice to the Group on taxation, acquisitions and, in 1999, on the implementation and structuring of 'LEAP' ('Leadership Equity Acquisition Plan').

### Minimum committed annual rentals

Amounts payable (net of taxes) in 2000 under the foregoing leases will be as follows:

	Plant and machinery			Property		
	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m
In respect of operating leases which expire:						
- within one year	4.7	5.1	3.9	4.8	7.0	6.5
- within two to five years	15.9	13.2	10.9	24.7	20.4	15.0
- after five years	1.5	0.2	0.6	65.8	49.2	49.8
	<b>22.1</b>	<b>18.5</b>	<b>15.4</b>	<b>95.3</b>	<b>76.6</b>	<b>71.3</b>

Future minimum annual amounts payable (net of taxes) under lease commitments in existence at 31 December 1999 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2000	117.4	(8.6)	108.8
2001	107.9	(6.9)	101.0
2002	100.3	(6.5)	93.8
2003	88.2	(6.1)	82.1
2004	83.1	(6.0)	77.1
Later years (to 2010)	290.1	(21.0)	269.1
	<b>787.0</b>	<b>(55.1)</b>	<b>731.9</b>



# Notes to the consolidated profit and loss account continued

## 3 Our people

Our staff numbers averaged 27,711 against 25,589 in 1998, up 8.3%, including acquisitions. Their geographical distribution was as follows:

	1999 Number	1998 Number	1997 Number
United Kingdom	4,439	3,973	3,625
United States	8,033	7,082	6,571
Continental Europe	5,650	4,922	4,291
Canada, Asia Pacific, Latin America, Africa & Middle East	9,589	9,612	8,422
	27,711	25,589	22,909

At the end of 1999 staff numbers were 29,168 compared with 26,184 in 1998.

Total staff costs were made up as follows:

	1999 £m	1998 £m	1997 £m
Wages and salaries	763.6	666.4	615.4
Payments and provisions charged under short- and long-term incentive plans	71.3	58.6	56.8
Social security costs	86.3	76.7	70.4
Other pension costs	27.7	20.7	20.2
Other staff costs	142.4	130.5	115.0
	1,091.3	952.9	877.8
<b>Staff cost to revenue ratio</b>	<b>50.2%</b>	<b>49.7%</b>	<b>50.3%</b>

Directors' emoluments are disclosed on page 84.

## 4 Net interest payable and similar charges

	1999 £m	1998 £m	1997 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	3.7	2.0	1.2
– repayable within five years, not by instalments	16.0	21.1	23.8
– on all other loans (including corporate bond)	14.1	6.9	1.4
Interest payable	33.8	30.0	26.4
Interest receivable	(10.4)	(10.8)	(10.3)
Net interest payable	23.4	19.2	16.1
Charges in respect of working capital facilities	12.0	13.2	12.0
	35.4	32.4	28.1

Net interest payable increased to £23.4 million from £19.2 million, reflecting the increased level of acquisitions and share repurchases during the year.

Interest on the majority of the Group's borrowings, other than the USA bond, is payable at a margin of between 0.20% and 0.55% over relevant LIBOR depending on certain covenant conditions being met and, for a significant proportion of borrowings, is hedged to January 2003 at US dollar LIBOR rates of 6.25% or less (excluding margin costs).

The majority of the Group's long-term debt is represented by \$300 million of USA bonds at a weighted average interest rate of 6.71%. Average borrowings under the \$500 million Syndicated Revolving Credit Facility amounted to \$228 million at an average interest rate of 6.1% (1998: 5.7%, 1997: 6.2%) inclusive of margin.

## Derivative financial instruments

The Group entered into various types of US dollar interest rate contracts in managing its interest rate risk, as below. The rates below exclude margin costs.

	1999	1998	1997
<b>Swaps</b>			
Notional principal amount	\$350m	\$350m	\$350m
Average pay rate	6.17%	5.84%	5.84%
Average receive rate	LIBOR	LIBOR	LIBOR
Average term	5 mths	6 mths	6 mths
Latest maturity date	Jan 2003	Jan 2003	Jan 2003

The Group enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. Under the swap agreements the Group agrees with other parties to exchange, at specified intervals, the difference between the fixed strike rate and prevailing relevant floating US dollar LIBOR calculated by reference to the agreed notional principal amount.

The differential paid or received by the Group on 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 derivative financial instruments.

The fair value of derivatives is disclosed in note 21. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 25 and 26.

## 5 Tax on profit on ordinary activities

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

	1999 £m	1998 £m	1997 £m
Corporation tax at 30.25% (1998: 31.0%, 1997: 31.5%)	12.4	12.9	6.1
Deferred taxation	(0.7)	–	(2.6)
Overseas taxation	56.5	51.4	52.0
Tax on profits of associate companies	8.1	6.8	3.9
Write-back of previously written-off ACT	–	(4.1)	(2.7)
Advance corporation tax written off	0.3	–	–
	76.6	67.0	56.7
Effective tax rate on profit before tax	30.0%	31.5%	32.0%

Reconciliation of the Group's tax to the United Kingdom statutory tax rate:

	1999 £m	1998 £m	1997 £m
Tax on pre-tax income at statutory rates of 30.25% (1998 31.0% and 1997: 31.5%)	77.3	66.0	55.9
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	(3.4)	4.3	2.6
Utilisation of tax losses brought forward	(4.7)	(5.6)	(4.1)
Unused tax losses carried forward	6.3	4.6	3.8
Differences between UK and overseas statutory standard tax rates	0.8	1.8	1.2
Write-back of previously written-off ACT	–	(4.1)	(2.7)
Advance corporation tax written off	0.3	–	–
Tax on profit on ordinary activities	76.6	67.0	56.7

## 6 Ordinary dividends

	1999 Pence per share	1998 Pence per share	1997 Pence per share	1999 £m	1998 £m	1997 £m
Interim dividend paid	1.0p	0.84p	0.70p	7.8	6.2	5.2
Final dividend proposed	2.1p	1.72p	1.43p	16.2	13.4	10.5
	3.1p	2.56p	2.13p	24.0	19.6	15.7

No ACT is payable in respect of the 1998 final dividend and the 1999 dividends, owing to the abolition of ACT with effect from April 1999.

## 7 Earnings per ordinary share

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

Basic earnings per share have been calculated using earnings of £172.8 million (1998: £140.3 million, 1997: £116.0 million) and weighted average shares in issue during the year of 753,324,054 shares (1998: 735,700,122 shares, 1997: 732,426,990 shares).

Diluted earnings per share have been calculated using earnings of £172.8 million (1998: £140.3 million, 1997: £116.0 million) on a weighted average of 768,691,993 shares (1998: 746,939,733 shares, 1997: 738,922,627 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings.

Basic and diluted earnings per ADR have been calculated using the same method as for earnings per share, multiplied by a factor of five. The comparative figures have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR.

# Notes to the consolidated cash flow statement

## 8 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:

	1999 Shares £m	1999 Debt £m	1998 Shares £m	1998 Debt £m	1997 Shares £m	1997 Debt £m
<b>Analysis of changes in financing</b>						
Beginning of year	639.5	194.2	495.2	97.3	490.6	215.4
Shares issued in respect of acquisitions	-	-	132.7	-	-	-
Other issues of share capital	40.9	-	12.2	-	5.3	-
Shares bought back and cancelled	-	-	(0.6)	-	(0.7)	-
Repayment of bank loans	-	-	-	-	-	(18.5)
Increase/(reduction) in drawings on bank loans	-	258.0	-	97.3	-	(106.4)
Amortisation/(payment) of financing costs included in net debt	-	1.7	-	(1.2)	-	(0.2)
Exchange adjustments on long-term borrowings	-	5.6	-	0.8	-	7.0
<b>End of year</b>	<b>680.4</b>	<b>459.5</b>	<b>639.5</b>	<b>194.2</b>	<b>495.2</b>	<b>97.3</b>

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

### Shares

At 31 December 1999, the Company's share base was entirely composed of ordinary equity share capital and share premium of £680.4 million (1998: £639.5 million, 1997: £495.2 million), further details of which are disclosed in notes 22 and 23.

### Debt

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

**Revolving Credit Facility** The Group's debt is also funded by a \$500 million syndicated Revolving Credit Facility dated July 1998. The facility is due to expire in July 2002. The Group's syndicated borrowings drawn down under the agreement averaged \$228 million during the year.

**Revolving Facility Agreement** During the year, the Group entered into a further Revolving Facility Agreement for US\$150 million. This facility has a 365-day maturity.

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

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

	1999 £m	Change in year £m	1998 £m	Change in year £m	1997 £m
<b>Debt</b>					
Within one year	(92.7)	(92.7)	-	9.3	(9.3)
Between one and two years	-	-	-	-	-
Between two and five years	(183.1)	(168.0)	(15.1)	71.9	(87.0)
Over five years – by instalments	(183.7)	(4.6)	(179.1)	(178.1)	(1.0)
<b>Debt financing under the Credit Facility Agreement and from unsecured loan notes</b>	<b>(459.5)</b>	<b>(265.3)</b>	<b>(194.2)</b>	<b>(96.9)</b>	<b>(97.3)</b>
Short-term overdrafts – within one year	(55.6)	39.8	(95.4)	(22.9)	(72.5)
Cash at bank and in hand	607.0	183.1	423.9	59.4	364.5
<b>Net funds</b>	<b>91.9</b>	<b>(42.4)</b>	<b>134.3</b>	<b>(60.4)</b>	<b>194.7</b>

### Analysis of fixed and floating rate debt by currency:

Currency	£m	Fixed rate <sup>1</sup>	Floating basis	Period (months) <sup>1</sup>
US\$	401.7 <sup>2</sup>	6.42%	n/a	52
US\$	136.6	n/a	LIBOR	n/a
£	132.0	n/a	LIBOR	n/a
Other	3.3	n/a	various	n/a
	673.6			

<sup>1</sup>Weighted average.

<sup>2</sup>Including drawings on working capital facility as described in note 17.

	1999 £m	1998 £m	1997 £m
<b>9 Reconciliation of operating profit to net cash inflow from operating activities</b>			
<b>Operating profit</b>	<b>263.5</b>	<b>229.1</b>	<b>194.9</b>
Depreciation charge (note 13)	42.2	33.7	29.1
Decrease/(increase) in working capital and provisions	41.9	(7.7)	58.9
Loss on sale of tangible fixed assets	0.9	0.9	0.1
<b>Net cash inflow from operating activities</b>	<b>348.5</b>	<b>256.0</b>	<b>283.0</b>

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:

	1999 £m	1998 £m	1997 £m
<b>Changes in working capital and provisions</b>			
(Increase)/decrease in stocks and work in progress	(1.5)	0.2	(2.5)
(Increase)/decrease in debtors	(165.3)	23.9	(66.3)
Increase/(decrease) in creditors – short term	155.4	(29.2)	120.0
– long term	43.2	(7.9)	6.9
Increase in provisions	10.1	5.3	0.8
<b>Decrease/(increase) in working capital and provisions</b>	<b>41.9</b>	<b>(7.7)</b>	<b>58.9</b>

## 10 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 59:

	1999 £m	1998 £m	1997 £m
<b>Returns on investments and servicing of finance</b>			
Interest and similar charges paid	(42.0)	(36.8)	(39.9)
Interest received	9.3	10.6	10.6
Dividends paid to minorities	(4.4)	(2.5)	(1.2)
<b>Net cash outflow</b>	<b>(37.1)</b>	<b>(28.7)</b>	<b>(30.5)</b>

### Capital expenditure and financial investment

Purchase of tangible fixed assets (note 13)	(64.6)	(51.6)	(36.3)
Purchase of own shares by ESOP trust (note 14)	(17.9)	(33.3)	(12.7)
Proceeds from sale of tangible fixed assets	2.0	2.8	3.2
<b>Net cash outflow</b>	<b>(80.5)</b>	<b>(82.1)</b>	<b>(45.8)</b>

### Acquisition payments

Cash consideration for acquisitions	(242.2)	(111.8)	(51.3)
Less cash acquired	51.8	6.1	0.1
Net purchase of other investments	(11.8)	(9.8)	(17.3)
<b>Net cash outflow</b>	<b>(202.2)</b>	<b>(115.5)</b>	<b>(68.5)</b>

### Financing activities

Net repayment of bank loans	-	-	(18.5)
Increase/(reduction) in drawings on bank loans	258.0	(81.4)	(106.4)
Share buy-backs	-	(21.3)	(18.5)
Financing costs	-	(2.3)	(1.3)
Proceeds from issue of shares	12.0	4.3	2.4
Proceeds from issue of bond	-	178.8	-
<b>Net cash inflow/(outflow)</b>	<b>270.0</b>	<b>78.1</b>	<b>(142.3)</b>

# Notes to the consolidated balance sheet

## 11 Segment information

Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
United Kingdom	624.6	436.9	356.0	143.2	54.0	31.2
United States	962.4	623.4	515.8	(324.0)	(359.9)	(420.5)
Continental Europe	714.7	621.2	489.0	144.4	95.6	61.9
Canada, Asia Pacific, Latin America, Africa & Middle East	904.7	771.0	618.5	271.2	271.8	114.4
	<b>3,206.4</b>	<b>2,452.5</b>	<b>1,979.3</b>	<b>234.8</b>	<b>61.5</b>	<b>(213.0)</b>
Net interest bearing funds				91.9	134.3	194.7
<b>Net assets/(liabilities) in the consolidated balance sheet</b>				<b>326.7</b>	<b>195.8</b>	<b>(18.3)</b>

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
Advertising, media investment management	1,850.8	1,616.0	1,461.7	(259.3)	(139.2)	(212.2)
Information & consultancy	455.0	294.8	157.7	173.5	71.8	(11.3)
Public relations & public affairs	247.7	167.8	81.4	121.4	68.3	11.7
Branding & identity, healthcare and specialist communications	652.9	373.9	278.5	199.2	60.6	(1.2)
	<b>3,206.4</b>	<b>2,452.5</b>	<b>1,979.3</b>	<b>234.8</b>	<b>61.5</b>	<b>(213.0)</b>
Net interest bearing funds				91.9	134.3	194.7
<b>Net assets/(liabilities) in the consolidated balance sheet</b>				<b>326.7</b>	<b>195.8</b>	<b>(18.3)</b>

Certain items, including the valuation 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.

## 12 Intangible fixed assets

	1999 £m	1998 £m	1997 £m
<b>Corporate brand names</b>	<b>350.0</b>	<b>350.0</b>	<b>350.0</b>

Corporate brand names represent J. Walter Thompson, Hill and Knowlton and Ogilvy & Mather Worldwide. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 56.

	£m
1 January 1998	-
Additions	158.0
31 December 1998	158.0
Additions	252.3
<b>31 December 1999</b>	<b>410.3</b>

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 14.

## 13 Tangible fixed assets

The movements in 1999 and 1998 were as follows:

	Land and buildings					Total £m
	Freehold £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m		
Cost:						
1 January 1998	12.0	113.1	82.5	107.9		315.5
Additions	0.1	13.3	13.4	24.8		51.6
New acquisitions	0.1	2.4	5.5	4.3		12.3
Disposals	(0.6)	(2.6)	(2.6)	(6.3)		(12.1)
Exchange adjustments	-	(1.3)	(0.5)	0.9		(0.9)
31 December 1998	11.6	124.9	98.3	131.6		366.4
Additions	0.3	13.0	15.3	36.0		64.6
New acquisitions	0.4	5.0	7.7	5.3		18.4
Disposals	-	(2.8)	(3.0)	(7.7)		(13.5)
Exchange adjustments	0.1	1.5	0.6	(1.0)		1.2
<b>31 December 1999</b>	<b>12.4</b>	<b>141.6</b>	<b>118.9</b>	<b>164.2</b>		<b>437.1</b>

	£m	£m	£m	£m	£m
Depreciation:					
1 January 1998	2.4	45.8	51.6	72.2	172.0
New acquisitions	-	1.7	0.5	0.4	2.6
Charge	0.7	5.1	11.4	16.5	33.7
Disposals	-	(1.5)	(1.6)	(5.3)	(8.4)
Exchange adjustments	(0.3)	(0.2)	-	0.3	(0.2)
31 December 1998	2.8	50.9	61.9	84.1	199.7
New acquisitions	0.1	2.2	3.5	2.4	8.2
Charge	0.3	8.7	11.8	21.4	42.2
Disposals	-	(1.9)	(2.0)	(6.7)	(10.6)
Exchange adjustments	0.1	1.0	0.4	(0.6)	0.9
<b>31 December 1999</b>	<b>3.3</b>	<b>60.9</b>	<b>75.6</b>	<b>100.6</b>	<b>240.4</b>

	£m	£m	£m	£m	£m
Net book value:					
<b>31 December 1999</b>	<b>9.1</b>	<b>80.7</b>	<b>43.3</b>	<b>63.6</b>	<b>196.7</b>
31 December 1998	8.8	74.0	36.4	47.5	166.7
1 January 1998	9.6	67.3	30.9	35.7	143.5

Leased assets (other than leasehold property) included above have a net book value of £3.1 million (1998: £2.3 million, 1997: £1.8 million).

At the end of the year, capital commitments contracted, but not provided for were:

	1999 £m	1998 £m	1997 £m
Capital commitments	1.4	0.6	2.2

## Notes to the consolidated balance sheet continued

### 14 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 investments £m	Total £m
1 January 1998	22.7	-	27.0	20.8	70.5
Additions	52.4	-	33.3	13.7	99.4
Goodwill arising on acquisition of new associates	-	90.6	-	-	90.6
Share of profits after tax of associate undertakings	9.3	-	-	-	9.3
Dividends and other movements	(8.0)	-	-	2.5	(5.5)
Exchange adjustments	10.0	-	-	-	10.0
Disposals	-	-	(2.2)	(3.9)	(6.1)
31 December 1998	86.4	90.6	58.1	33.1	268.2
Additions	2.6	-	17.9	19.2	39.7
Goodwill arising on acquisition of new associates	-	40.5	-	-	40.5
Share of profits after tax of associate undertakings	19.2	-	-	-	19.2
Dividends and other movements	(6.3)	-	-	(1.5)	(7.8)
Exchange adjustments	7.6	-	-	-	7.6
Disposals	(2.3)	-	(4.7)	(3.5)	(10.5)
<b>31 December 1999</b>	<b>107.2</b>	<b>131.1</b>	<b>71.3</b>	<b>47.3</b>	<b>356.9</b>

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Batey Ads (Pte) Limited	30.0	Singapore
Chime Communications PLC	29.9	United Kingdom
High Co S.A. <sup>1</sup>	30.0	France
IBOPE Group	31.0	Brazil
Ogilvy & Mather Rightford Pty Limited	40.0	South Africa
Singleton, Ogilvy & Mather (Holdings) Pty Limited	40.7	Australia

<sup>1</sup>acquired in 1999

The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Option 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 90 to 95.

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 1999 was 27,888,766, (1998: 25,532,484, 1997: 16,456,119) and £273.6 million (1998: £93.4 million, 1997: £44.3 million) respectively.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 1999 was as follows: Asatsu-DK - £419.6 million, Chime Communications PLC - £61.6 million, High Co S.A. - £28.7 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Other investments include a UK listed investment of £24.3 million (1998: £19.9 million, 1997: £14.3 million). This represents an interest of 18.1% (1998: 17.9%, 1997: 13.7%) in the ordinary share capital of Tempus Group PLC, Europe's second largest independent media buyer.

### 15 Stocks and work in progress

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

	1999 £m	1998 £m	1997 £m
Work in progress	110.4	104.5	97.0
Stocks	3.1	2.8	2.7
	<b>113.5</b>	<b>107.3</b>	<b>99.7</b>

### 16 Debtors

The following are included in debtors:

	1999 £m	1998 £m	1997 £m
<b>Amounts falling due within one year</b>			
Trade debtors outside working capital facility	770.0	678.9	633.9
VAT and sales taxes recoverable	13.5	4.0	7.2
Corporate income taxes recoverable	8.7	9.9	6.5
Other debtors	143.4	126.5	103.3
Prepayments and accrued income	64.3	46.8	53.5
	<b>999.9</b>	<b>866.1</b>	<b>804.4</b>

### Amounts falling due after more than one year

Other debtors	34.7	20.5	18.9
Prepayments and accrued income	5.8	6.5	4.3
	<b>40.5</b>	<b>27.0</b>	<b>23.2</b>
	<b>1,040.4</b>	<b>893.1</b>	<b>827.6</b>

### Movements on bad debt provisions were as follows:

	1999 £m	1998 £m	1997 £m
Balance at beginning of year	16.5	15.6	14.7
Charged/(credited):			
To costs and expenses	4.0	4.6	6.6
Exchange adjustments	(0.1)	(0.4)	(0.5)
Other	(3.8)	(3.3)	(5.2)
Balance at end of year	<b>16.6</b>	<b>16.5</b>	<b>15.6</b>

The allowance for doubtful debts is equivalent to 1.8% (1998: 2.1%, 1997: 2.0%) of gross trade accounts receivable.

### 17 Debtors within working capital facility

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

	1999 £m	1998 £m	1997 £m
Gross debts	345.7	294.5	335.2
Non-returnable proceeds	(214.1)	(209.2)	(211.7)
	<b>131.6</b>	<b>85.3</b>	<b>123.5</b>

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, held by one of the Group's subsidiaries, to a trust for the benefit of 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 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 providers of the finance have confirmed in writing that, in the event of default in payment by a debtor, they will only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that repayment will not be sought from the Group in any other way.

## Notes to the consolidated balance sheet continued

### 18 Creditors: amounts falling due within one year

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

	1999 £m	1998 £m	1997 £m
Bank loans and overdrafts (note 8)	148.3	95.4	81.8
Trade creditors	1,315.0	1,102.4	1,113.0
Corporate income taxes payable	34.6	50.0	49.2
Other taxation and social security	68.9	52.0	58.5
Dividends proposed	16.2	13.4	10.5
Payments due to vendors (note 24)	41.2	14.3	9.1
Other creditors and accruals	398.0	338.7	282.2
Deferred income	125.8	111.1	97.3
	<b>2,148.0</b>	<b>1,777.3</b>	<b>1,701.6</b>

Bank loans and overdrafts include overdrafts of £55.6 million (1998: £95.4 million, 1997: £72.5 million).

### 19 Creditors: amounts falling due after more than one year

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

	1999 £m	1998 £m	1997 £m
Bank loans (note 8)	366.8	194.2	88.0
Corporate income taxes payable	122.9	91.3	75.3
Payments due to vendors (note 24)	131.2	83.6	25.3
Other creditors and accruals	31.6	32.4	32.9
	<b>652.5</b>	<b>401.5</b>	<b>221.5</b>

### 20 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Deferred taxation £m	Pension and other £m	Long- term incentive plans £m	Total £m
1 January 1998	8.4	43.3	22.8	74.5
Charged to the profit and loss account	0.4	5.8	11.2	17.4
New acquisitions	-	0.2	-	0.2
Utilised	(0.9)	(4.0)	(12.2)	(17.1)
Transfers	0.7	1.3	-	2.0
Exchange adjustments	0.1	0.8	-	0.9
31 December 1998	8.7	47.4	21.8	77.9
(Credited)/charged to the profit and loss account	(0.7)	7.3	15.2	21.8
New acquisitions	-	0.8	-	0.8
Utilised	(0.6)	(4.4)	(14.4)	(19.4)
Transfers	(2.5)	2.6	-	0.1
Exchange adjustments	(0.2)	(1.8)	-	(2.0)
<b>31 December 1999</b>	<b>4.7</b>	<b>51.9</b>	<b>22.6</b>	<b>79.2</b>

### 20 Provisions for liabilities, charges and contingent liabilities continued

#### Deferred taxation

Deferred tax has been provided to the extent that the directors have concluded that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings. There is no material unprovided deferred tax at 31 December 1999.

	1999 £m	1998 £m	1997 £m
Deferred tax assets:			
- Unutilised tax losses	7.7	13.3	24.6
- Deferred compensation	32.2	29.0	28.4
- Acquisition related provisions (principally property, working capital and staff-related liabilities)	5.4	8.8	9.0
- Advance corporation tax written off	0.3	-	4.1
- Other	7.8	7.6	5.3
	<b>53.4</b>	<b>58.7</b>	<b>71.4</b>
Less:			
- Provision against deferred tax assets	30.8	36.1	55.5
Deferred tax liabilities:			
- Accelerated capital allowances	5.2	5.6	5.5
- Interest receivable	17.2	16.1	10.9
- Other	4.9	9.6	7.9
Temporary timing differences	27.3	31.3	24.3
	<b>4.7</b>	<b>8.7</b>	<b>8.4</b>

The provision against deferred tax assets represents a provision for uncertainty as to the realisation of the Group's deferred tax assets. The net decrease in the year in the total provision was £5.3 million (1998: £19.4 million, 1997: £10.9 million).

Unutilised tax losses include tax losses arising in the US. These losses do not expire for more than 10 years. UK losses may be carried forward for an indefinite period. The life of losses carried forward in other international jurisdictions varies according to local tax laws. Deferred tax liabilities and assets attributable to different tax jurisdictions have not been offset.

#### 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 schemes are administered by trustees and, in most cases, are independent of the Group.

Pension and other provisions relate primarily to unfunded pension costs which are provided for in the Group's balance sheet, and arise mainly in the United States and Continental Europe.

The Group's pension costs are analysed as follows:

	1999 £m	1998 £m	1997 £m
Defined contribution schemes	21.4	14.7	13.2
Defined benefit schemes	6.4	5.9	7.0
	<b>27.8</b>	<b>20.6</b>	<b>20.2</b>

Where defined benefit schemes exist the pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit credit and attained age methods. The latest actuarial assessments of the schemes were undertaken within the last three years.

Actuarial valuations in aggregate over the last three years are as follows:

	1999 per annum	1998 per annum	1997 per annum
<b>Assumptions</b>			
Return on plan assets	9%	9%	9%
Salary increases	2-8%	3-8%	5-8%
Pension increases	3-6%	3-6%	3-6%
<b>Assessments</b>			
Market value of plan assets at year-end	£176m	£129m	£128m
Value of assets to benefits ratio	100%	102%	100%

# Notes to the consolidated balance sheet continued

20 Provisions for liabilities and charges, and contingent liabilities continued

## Other provisions

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 1999 that may become payable after more than one year, as described in the Compensation committee report on pages 90 to 95.

## Contingent liabilities

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.

## 21 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 March 2000	31 December 1999	31 December 1998
	Swaps	Swaps	Swaps
	£m	£m	£m
Fair value	3.7	2.1	(6.9)
Book value	nil	nil	nil

### Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 1999 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 – considered to approximate to fair value because of the short maturity of such instruments.

Long-term borrowings – considered to approximate to fair value based on available market information. 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.

## 22 Authorised and issued share capital

	1999	1999	1998	1998	1997	1997
	Number	£m	Number	£m	Number	£m
<b>Authorised:</b>						
Equity ordinary shares of 10p each	1,250	125.0	1,250	125.0	1,000	100.0
<b>Issued:</b>						
Equity ordinary shares of 10p each	774.5	77.5	766.5	76.6	736.3	73.6

Movements in each year are shown in note 23.

22 Authorised and issued share capital continued

## Share options

As at 31 December 1999, unexercised options totalling 26,647,209 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
7,012	5.430	1995 – 2000
19,549	3.970	1995 – 2000
92,751	1.330	1996 – 2001
164,339	0.560	1997 – 2002
116,052	0.295	1995 – 2002
85,387	1.020	1996 – 2003
38,657	1.150	1997 – 2004
2,203,028	1.190	1997 – 2004
1,181,193	1.080	1998 – 2005
4,471,445	1.540	1998 – 2005
1,216,829	2.140	1999 – 2006
4,441,626	2.335	1999 – 2006
37,014	2.535	2000 – 2007
5,011,830	2.835	2000 – 2007
25,110	3.030	2001 – 2008
4,904,852	2.930	2001 – 2008
51,100	3.270	2001 – 2008
430,484	5.185	2002 – 2009
2,148,951	5.700	2002 – 2009

As at 31 December 1999, unexercised options totalling 6,293,625 have been granted under the WPP Worldwide Share Ownership Programme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
1,955,925	2.695	2000 – 2007
2,498,625	3.030	2001 – 2008
1,839,075	5.315	2002 – 2009

A further grant was made on 21 March 2000 of 317,008 options at £10.77 exercisable between 2003 and 2010.

The aggregate status of the WPP Share Option Schemes during 1999 was as follows:

### Movement on options granted

1 January 1999	Granted	Exercised	Lapsed	31 December 1999
Number	Number	Number	Number	Number
37,685,730	4,452,090	8,067,860	1,129,126	32,940,834

### Options outstanding

Range of exercise prices	Weighted average exercise price	Weighted average contractual life
£	£	Months
0.295–5.70	2.74	89

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

	1999	1998	1997
Fair value	134.0p	71.5p	64.5p

Weighted average assumptions:

Risk-free interest rate	5.23%	5.84%	6.15%
Expected life (months)	36	36	36
Expected volatility	28%	25%	24%
Dividend yield	0.6%	0.6%	0.9%

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

The weighted average fair value of the awards made under the Leadership Equity Acquisition Program ('LEAP'), calculated using the Black-Scholes model, were as follows:

	1999
Fair value	233.8p
Weighted average assumptions:	
Risk-free interest rate	5.23%
Expected life (months)	60
Expected volatility	28%
Dividend yield	0.6%

LEAP awards were made at an exercise price equal to market value on the date of grant.



## Notes to the consolidated balance sheet continued

### 23 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Goodwill write-off reserve £m	Other reserves £m	Profit and loss account £m	Total £m
<b>Balance at 1 January 1997</b>	<b>74.1</b>	<b>416.5</b>	<b>(1,068.8)</b>	<b>117.8</b>	<b>482.7</b>	<b>22.3</b>
1997 movements						
Ordinary shares issued	0.2	5.1	-	-	(2.9)	2.4
Write-off of goodwill arising on consolidation in the year	-	-	(91.6)	-	-	(91.6)
Currency translation movement	-	-	-	(40.1)	-	(40.1)
Retained profit for the financial year	-	-	-	-	100.3	100.3
Share buy-backs	(0.7)	-	-	0.7	(18.5)	(18.5)
<b>Balance at 31 December 1997</b>	<b>73.6</b>	<b>421.6</b>	<b>(1,160.4)</b>	<b>78.4</b>	<b>561.6</b>	<b>(25.2)</b>
1998 movements						
Ordinary shares issued in respect of acquisitions	3.1	129.6	-	-	(27.3)	105.4
Other ordinary shares issued	0.5	11.7	-	-	(8.1)	4.1
Transfers between reserves	-	-	1,160.4	(54.5)	(1,105.9)	-
Currency translation movement	-	-	-	4.0	-	4.0
Retained profit for the financial year	-	-	-	-	120.7	120.7
Share buy-backs	(0.6)	-	-	0.6	(21.3)	(21.3)
<b>Balance at 31 December 1998</b>	<b>76.6</b>	<b>562.9</b>	<b>-</b>	<b>28.5</b>	<b>(480.3)</b>	<b>187.7</b>
1999 movements						
Ordinary shares issued	0.9	40.0	-	0.8	(28.8)	12.9
Currency translation movement	-	-	-	(31.2)	-	(31.2)
Retained profit for the financial year	-	-	-	-	148.8	148.8
<b>Balance at 31 December 1999</b>	<b>77.5</b>	<b>602.9</b>	<b>-</b>	<b>(1.9)</b>	<b>(360.3)</b>	<b>318.2</b>

Other reserves at 31 December 1999 comprise: currency translation deficit £124.5 million (1998: £93.3 million, 1997: £97.3 million), revaluation reserve £nil (1998: £nil, 1997: £175.0 million), capital redemption reserve £1.3 million (1998: £1.3 million, 1997: £0.7 million) and merger reserve £121.3 million (1998: £120.5 million, 1997: £nil).

### 24 Acquisitions and disposals

Goodwill arising on acquisitions in the year was calculated as follows:

	Cash acquired £m	Book value of other assets £m	Fair value adjustments £m	Fair value £m	Cost of acquisition £m	Goodwill £m
IntelliQuest Information Group, Inc.	44.4	(3.4)	(1.6)	39.4	67.5	28.1
Other	7.4	(2.0)	(20.9)	(15.5)	249.2	264.7
	<b>51.8</b>	<b>(5.4)</b>	<b>(22.5)</b>	<b>23.9</b>	<b>316.7</b>	<b>292.8</b>

The Group made a number of acquisitions during 1999 across several operational sectors and geographic markets.

Total goodwill of £292.8 million arising during the year includes £252.3 million in respect of the acquisition of subsidiary undertakings and £40.5 million in respect of associate undertakings. Included in these amounts are £220.5 million of cash paid and £96.2 million of additional future anticipated payments to vendors, based on the directors' best estimates of future obligations, which are dependent on future performance of the interests acquired. Cash paid to vendors in respect of consideration accrued in prior years amounted to £21.7 million.

#### IntelliQuest Information Group, Inc.

During the year, the Group acquired IntelliQuest Information Group, Inc, a leading US provider of information services for technology companies. Total fair value adjustments of £1.6 million primarily related to additional tax liabilities.

#### Other

Fair value adjustments of £20.9 million arising on other acquisitions include £6.8 million of additional tax liabilities and £14.1 million of other liabilities.

Acquisitions during 1999 did not have a significant impact on the Group's results for the year, nor were there any material disposals.

### 25 Principal operating subsidiary undertakings

A list of the principal operating subsidiary undertakings is given on pages 4 and 5. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

### 26 Post balance sheet event

Since 31 December 1999, the Board of WPP Group plc has entered into negotiations with Young & Rubicam Inc., to explore a potential merger of the two companies. As at the date of approval of the Group's financial statements by the Board (namely 10 May 2000), these negotiations are continuing. The Board does not consider that the continuation of these discussions has a material effect on the Group's financial statements for the year ended 31 December 1999.

# Company balance sheet

As at 31 December 1999

	Notes	1999 £m	1998 £m	1997 £m
<b>Fixed assets</b>				
Tangible assets	27	10.3	5.8	2.9
Investments	28	1,808.6	1,661.1	1,331.7
		1,818.9	1,666.9	1,334.6
<b>Current assets</b>				
Debtors (including amounts falling due after more than one year)	29	88.7	60.4	83.7
Cash at bank and in hand		2.4	1.2	48.8
		91.1	61.6	132.5
<b>Creditors: amounts falling due within one year</b>	30	(370.8)	(329.6)	(296.8)
<b>Net current liabilities</b>		(279.7)	(268.0)	(164.3)
<b>Total assets less current liabilities</b>		1,539.2	1,398.9	1,170.3
<b>Creditors: amounts falling due after more than one year</b>	31	(441.2)	(346.2)	(336.4)
<b>Net assets</b>		1,098.0	1,052.7	833.9
<b>Capital and reserves</b>				
Called up share capital	32	77.5	76.6	73.6
Share premium account	32	602.9	562.9	421.6
Other reserves	32	212.8	212.0	88.0
Profit and loss account	32	204.8	201.2	250.7
<b>Total equity capital employed</b>		1,098.0	1,052.7	833.9

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

Signed on behalf of the Board on 10 May 2000:

**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 profit of £27.6 million (1998: loss of £8.8 million, 1997: profit of £55.3 million) in respect of the Company.



# Notes to the Company balance sheet

## 27 Tangible fixed assets

The movements in 1999 and 1998 were as follows:

	Short lease-hold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Costs:				
1 January 1998	1.0	0.7	3.8	5.5
Additions	0.2	0.1	3.4	3.7
31 December 1998	1.2	0.8	7.2	9.2
Additions	0.4	-	5.4	5.8
<b>31 December 1999</b>	<b>1.6</b>	<b>0.8</b>	<b>12.6</b>	<b>15.0</b>
Depreciation:				
1 January 1998	0.6	0.5	1.5	2.6
Charge	0.2	0.1	0.5	0.8
31 December 1998	0.8	0.6	2.0	3.4
Charge	0.2	-	1.1	1.3
<b>31 December 1999</b>	<b>1.0</b>	<b>0.6</b>	<b>3.1</b>	<b>4.7</b>
Net book value:				
<b>31 December 1999</b>	<b>0.6</b>	<b>0.2</b>	<b>9.5</b>	<b>10.3</b>
31 December 1998	0.4	0.2	5.2	5.8
1 January 1998	0.4	0.2	2.3	2.9

## 28 Fixed asset investments

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

	Subsidiary under-takings £m	Own shares £m	Total £m
1 January 1998	1,304.7	27.0	1,331.7
Additions	298.3	33.3	331.6
Disposals	-	(2.2)	(2.2)
31 December 1998	1,603.0	58.1	1,661.1
Additions	308.1	17.9	326.0
Disposals	(108.9)	(4.7)	(113.6)
Return of capital from subsidiary undertakings	(64.9)	-	(64.9)
<b>31 December 1999</b>	<b>1,737.3</b>	<b>71.3</b>	<b>1,808.6</b>

Further details of the Company's holdings of own shares are detailed in note 14 to the consolidated balance sheet.

## 29 Debtors

The following are included in debtors:

	1999 £m	1998 £m	1997 £m
Amounts owed by subsidiary undertakings	49.7	28.8	63.1
Other debtors	39.0	31.6	20.6
	<b>88.7</b>	<b>60.4</b>	<b>83.7</b>

Included within amounts owed by subsidiary undertakings are loans totalling Enil (1998: £5.2 million, 1997: £16.8 million) which fall due for repayment after more than one year.

## 30 Creditors: amounts falling due within one year

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

	1999 £m	1998 £m	1997 £m
Bank loans and overdrafts	25.5	49.1	60.9
Amounts due to subsidiary undertakings	313.8	245.1	214.7
Taxation and social security	10.6	6.9	-
Dividends proposed	16.2	13.3	10.6
Other creditors and accruals	4.7	15.2	10.6
	<b>370.8</b>	<b>329.6</b>	<b>296.8</b>

## 31 Creditors: amounts falling due after more than one year

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

	1999 £m	1998 £m	1997 £m
Bank loans	180.3	10.0	-
Amounts due to subsidiary undertakings	252.0	323.9	321.3
Other creditors and accruals	8.9	12.3	15.1
	<b>441.2</b>	<b>346.2</b>	<b>336.4</b>

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

	1999 £m	1998 £m	1997 £m
Within two to five years	180.3	10.0	-

The Company's bank loans and overdrafts form part of the Group's facilities under the Revolving Credit Facility (note 8).

## 32 Share owners' funds

Movements during the year were as follows:

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	76.6	562.9	212.0	201.2
Ordinary shares issued	0.9	40.0	0.8	-
Retained profit for the financial year	-	-	-	3.6
	77.5	602.9	212.8	204.8

Other reserves at 31 December 1999 comprise: Currency translation deficit £37.2 million (1998: £37.2 million, 1997: £33.2 million), capital redemption reserve £1.3 million (1998: £1.3 million, 1997: £0.7 million), merger reserve £121.3 million (1998: £120.5 million, 1997: £120.5 million) and capital reserve £127.4 million (1998: £127.4 million, 1997: £Nil).

At 31 December 1999 the Company's distributable reserves amounted to £204.8 million. Further details of the Company's movements in share capital are shown in note 23.

# Reconciliation to US Accounting Principles

The following is a summary of the estimated material adjustments to profit and ordinary share owners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied:

	Notes	For the year ended 31 December		
		1999 £m	1998 £m	1997 £m
<b>Net income</b>				
Profit attributable to ordinary share owners under UK GAAP		<b>172.8</b>	140.3	116.0
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	1	<b>(42.1)</b>	(38.2)	(34.1)
Executive compensation	1	<b>(58.4)</b>	(2.6)	(1.7)
Deferred tax items	1	<b>34.5</b>	-	-
		<b>(66.0)</b>	(40.8)	(35.8)
Net income as adjusted for US GAAP		<b>106.8</b>	99.5	80.2

Comprehensive income (total recognised gains and losses) for the year under UK GAAP was £141.6 million, (1998: £144.3 million, 1997: £75.9 million).

Basic earnings per share as adjusted for US GAAP (p)	3	<b>14.2</b>	13.5	10.9
Diluted earnings per share as adjusted for US GAAP (p)	3	<b>13.8</b>	13.2	10.8

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

The Company applies US APB Opinion 25 and related interpretations when accounting for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS Statement 123 'Accounting for Stock-Based Compensation', the Company's net income and earnings per share under US GAAP would have been reduced to the pro forma amounts indicated below:

	1999	1998	1997
Net income as adjusted for US GAAP:			
As reported (£m)	<b>106.8</b>	99.5	80.2
Pro forma (£m)	<b>102.6</b>	96.8	77.5
Basic earnings per share per US GAAP:			
As reported (p)	<b>14.2</b>	13.5	10.9
Pro forma (p)	<b>13.6</b>	13.2	10.6

Further details regarding stock option plans and the fair valuation of option grants can be found in note 22.

	Notes	As at 31 December		
		1999 £m	1998 £m	1997 £m
<b>Share owners' funds</b>				
Share owners' funds under UK GAAP		<b>318.2</b>	187.7	(25.2)
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	<b>685.2</b>	762.7	932.8
Reversal of revaluation of corporate brand names	1	-	-	(175.0)
Revaluation of investments marked to market		<b>41.2</b>	-	-
Shares owned by Employee Share Option Plan (ESOP)	1	<b>(71.3)</b>	(58.1)	(27.0)
Deferred tax items	1	<b>41.9</b>	7.4	7.4
Proposed final ordinary dividend, not yet declared	1	<b>16.2</b>	13.4	10.5
Other		<b>(3.9)</b>	(4.4)	(4.4)
		<b>709.3</b>	721.0	744.3
Share owners' funds as adjusted for US GAAP	2	<b>1,027.5</b>	908.7	719.1

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £1,582.6 million (1998: £1,509.5 million, 1997: £1,211.2 million), net of disposals made. The movement in goodwill arises due to the impact of acquisitions made during the year and also its denomination in various currencies, resulting in exchange rate movements against sterling.

# Notes to the Reconciliation to US Accounting Principles

## 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:

### Goodwill and US purchase accounting

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 FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions on or after 1 January 1998 has been capitalised as an intangible asset. No amortisation has been provided against this goodwill 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' equity, in accordance with the then preferred treatment under UK GAAP. Under US GAAP, goodwill in respect of business combinations accounted for as purchases would be charged against income over its estimated useful life, being not more than 40 years. Accordingly, for US GAAP purposes, the Group is amortising goodwill over 40 years. The Group evaluates the carrying value of its tangible and intangible assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount. An impairment loss is 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.

### 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 1999, the Group's liabilities for vendor payments under UK GAAP totalled £172.4 million (1998: £97.9 million, 1997: £34.4 million). As these liabilities are represented by goodwill arising on acquisition, there is no net effect on shareholders' funds.

### Corporate brand names

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 gave rise to a credit of £175.0 million to the revaluation reserve. This was not recognised under US GAAP. Following the implementation of FRS 10 under UK GAAP, this amount was transferred to the profit and loss account reserve in 1998. Consequently, under US GAAP, the relevant reversal was netted against goodwill capitalised in the balance sheet. The Ogilvy & Mather brand name, acquired as part of The Ogilvy Group, Inc., was booked as an acquisition adjustment to balance sheet assets acquired and is amortised as part of goodwill over 40 years.

### 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, deferred tax is accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing 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

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 as the WPP Share Ownership Plan 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.

### Cash flows

Under UK GAAP the Group complies with the Financial Reporting Standard No. 1 Revised 'Cash Flow Statements' (FRS 1 Revised), the objective and principles of which are similar to those set out in SFAS 95 'Statement of Cash Flows' (SFAS). The principal difference between the two standards is in respect of classification. Under FRS 1 Revised, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; (e) equity dividends paid and (f) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing. Cash flows arising from taxation and returns on investment and servicing of finance under FRS 1 Revised would be included as a financing activity under SFAS 95. Payments made against

provisions set up on the acquisition of subsidiaries have been included in investing activities in the consolidated statement of cash flows. Under US GAAP these payments would be included in determining net cash provided by operating activities.

### Shares owned by Employee Share Option 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.

### 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 diminution in value. Under US GAAP, such investments are marked to market and any resulting unrealised gain or loss is taken to share owners' funds.

## 2 Movement in share owners' funds under US GAAP

	1999 £m	1998 £m	1997 £m
Net income for the year under US GAAP	106.8	99.5	80.2
Prior year final dividend	(13.4)	(10.5)	(8.3)
Current year interim dividend	(7.8)	(6.2)	(5.2)
Retained earnings for the year	85.6	82.8	66.7
Ordinary shares issued in respect of acquisitions	0.8	105.4	-
Share options exercised	12.1	4.1	2.4
Shares owned by Employee Share Option Plan	(13.2)	(31.1)	(9.7)
Revaluation of investments marked to market	41.2	-	-
Share buy-backs	-	(21.3)	(18.5)
Exchange adjustments:			
- Revaluation of goodwill	(34.9)	43.1	(51.2)
- Foreign currency net investment	(31.2)	4.0	(40.1)
Executive compensation	58.4	2.6	1.7
New additions to share owners' funds	118.8	189.6	(48.7)
Share owners' funds at 1 January	908.7	719.1	767.8
Share owners' funds at 31 December	1,027.5	908.7	719.1

## 3 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. The calculation of the weighted average number differs for UK and US GAAP purposes as follows:

	Basic earnings per share No.	Diluted earnings per share No.
Under UK GAAP	753,324,054	768,691,993
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 1999	-	5,430,846
Under US GAAP	753,324,054	774,122,839

## 4 Pension schemes

A summary of the Group's defined benefit pension schemes, together with the related pension cost calculated under UK GAAP and underlying actuarial assumptions, is shown in note 20 of the financial statements. The Group does not consider there to be a material difference between the pension charge under UK GAAP and US GAAP.

## 5 Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards in the United States 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 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.

Statement 133 is effective for fiscal years beginning after 15 June 1999. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning 16 June 1998 and thereafter). Statement 133 cannot be applied retroactively. Statement 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after 31 December 1997.

The Group has not yet quantified the impact of adopting Statement 133 on the amounts presented under US generally accepted accounting standards. However, the Statement could increase volatility in earnings and other comprehensive income.

# FIVE<sup>5</sup> - YEAR SUMMARY

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
<b>Profit and loss</b>					
Turnover (gross billings)	9,345.9	8,000.1	7,287.3	7,084.0	6,553.1
Revenue	2,172.6	1,918.4	1,746.7	1,691.3	1,554.9
Operating profit	263.5	229.1	194.9	170.1	135.0
Profit on ordinary activities before taxation	255.4	212.8	177.4	153.3	113.7
Profit attributable to ordinary share owners	172.8	140.3	116.0	100.0	68.7
<b>Balance sheet</b>					
Fixed assets	1,313.9	942.9	564.0	534.4	524.5
Net current liabilities	(255.5)	(267.7)	(286.3)	(147.6)	(165.0)
Creditors: amounts falling due after more than one year	(652.5)	(401.5)	(221.5)	(281.7)	(328.7)
Provisions for liabilities and charges	(79.2)	(77.9)	(74.5)	(78.2)	(88.8)
Net assets/(liabilities)	326.7	195.8	(18.3)	26.9	(58.0)
Net funds	91.9	134.3	194.7	159.2	71.4
Average net debt	(206.0)	(143.0)	(115.0)	(145.0)	(214.0)
	1999	1998	1997	1996	1995
<b>Our people</b>					
Revenue per employee (£000)	78.4	75.0	76.2	79.9	77.2
Operating profit per employee (£000)	9.5	9.0	8.5	8.0	6.7
Average headcount	27,711	25,589	22,909	21,166	20,152
<b>Share information</b>					
Basic earnings per ordinary share (net basis)	22.9p	19.1p	15.8p	13.6p	9.4p
Diluted earnings per share (net basis)	22.5p	18.8p	15.7p	13.5p	9.4p
Dividends per share	3.1p	2.56p	2.13p	1.7p	1.31p
Dividend cover <sup>(1)</sup>	7.3	7.3	7.4	7.9	7.2
Share price – high	996p	470p	292p	254p	168p
– low	359p	200p	237p	157p	100p
Market capitalisation at year-end (£m)	7,598.3	2,803.8	1,984.4	1,883.2	1,208.7

## Notes

<sup>1</sup> Diluted earnings per share (net basis) divided by dividends per share.

# Consolidated profit and loss account: euro illustration

For the year ended 31 December 1999

	1999 €m	1998 €m	1997 €m
<b>Turnover (gross billings)</b>	<b>14,207.6</b>	11,817.0	10,567.7
Cost of sales	<b>(10,904.8)</b>	(8,983.3)	(8,034.7)
<b>Revenue</b>	<b>3,302.8</b>	2,833.7	2,533.0
Direct costs	<b>(482.4)</b>	(422.3)	(403.2)
<b>Gross profit</b>	<b>2,820.4</b>	2,411.4	2,129.8
Operating costs	<b>(2,419.8)</b>	(2,073.0)	(1,847.2)
<b>Operating profit</b>	<b>400.6</b>	338.4	282.6
Income from associates	<b>41.5</b>	23.8	15.4
<b>Profit on ordinary activities before interest and taxation</b>	<b>442.1</b>	362.2	298.0
Net interest payable and similar charges	<b>(53.8)</b>	(47.9)	(40.7)
<b>Profit on ordinary activities before taxation</b>	<b>388.3</b>	314.3	257.3
Tax on profit on ordinary activities	<b>(116.5)</b>	(98.9)	(82.2)
<b>Profit on ordinary activities after taxation</b>	<b>271.8</b>	215.4	175.1
Minority interests	<b>(9.1)</b>	(8.1)	(6.8)
<b>Profit attributable to ordinary share owners</b>	<b>262.7</b>	207.3	168.3
Ordinary dividends	<b>(36.5)</b>	(29.0)	(22.8)
<b>Retained profit for the year</b>	<b>226.2</b>	178.3	145.5
<b>Earnings per share (net basis)</b>			
Basic earnings per ordinary share	<b>34.8¢</b>	28.2¢	22.9¢
Diluted earnings per ordinary share	<b>34.2¢</b>	27.8¢	22.8¢
<b>Ordinary dividend per share</b>			
Interim dividend	<b>1.52¢</b>	1.24¢	1.02¢
Final dividend	<b>3.19¢</b>	2.54¢	2.07¢

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 (1999: €1.5202 = £1, 1998: €1.4771 = £1, 1997: €1.45015 = £1) and the rate in effect on 31 December for the balance sheet (1999: €1.6056 = £1, 1998: €1.4169 = £1, 1997: €1.4948 = £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.

# Consolidated balance sheet: euro illustration

As at 31 December 1999

	1999 €m	1998 €m	1997 €m
<b>Fixed assets</b>			
Intangible assets:			
Corporate brands	561.9	495.9	523.2
Goodwill	658.8	223.9	-
Tangible assets	315.8	236.2	214.5
Investments	573.0	380.0	105.4
	<b>2,109.5</b>	<b>1,336.0</b>	<b>843.1</b>
<b>Current assets</b>			
Stocks and work in progress	182.2	152.0	149.0
Debtors	1,670.5	1,265.4	1,237.1
Debtors within working capital facility:			
Gross debts	555.1	417.3	501.1
Non-returnable proceeds	(343.8)	(296.4)	(316.4)
	211.3	120.9	184.7
Cash at bank and in hand	974.6	600.6	544.9
	<b>3,038.6</b>	<b>2,138.9</b>	<b>2,115.7</b>
<b>Creditors: amounts falling due within one year</b>	<b>(3,448.8)</b>	<b>(2,518.3)</b>	<b>(2,543.6)</b>
<b>Net current liabilities</b>	<b>(410.2)</b>	<b>(379.4)</b>	<b>(427.9)</b>
<b>Total assets less current liabilities</b>	<b>1,699.3</b>	<b>956.6</b>	<b>415.2</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(1,047.7)</b>	<b>(568.9)</b>	<b>(331.1)</b>
<b>Provisions for liabilities and charges</b>	<b>(127.2)</b>	<b>(110.4)</b>	<b>(111.4)</b>
<b>Net assets/(liabilities)</b>	<b>524.4</b>	<b>277.3</b>	<b>(27.3)</b>
<b>Capital and reserves</b>			
Called up share capital	124.4	108.5	110.0
Share premium account	968.0	797.5	630.2
Goodwill write-off reserve	-	-	(1,734.5)
Other reserves	(3.1)	40.4	117.2
Profit and loss account	(578.5)	(680.5)	839.5
<b>Share owners' funds</b>	<b>510.8</b>	<b>265.9</b>	<b>(37.6)</b>
Minority interests	13.6	11.4	10.3
<b>Total capital employed</b>	<b>524.4</b>	<b>277.3</b>	<b>(27.3)</b>

# FINANCIAL GLOSSARY

Term used in annual report	US equivalent or brief description
Advance corporation tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income (until 6 April 1999, when abolished)
Allotted	Issued
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
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
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
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
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
Profit attributable to ordinary share owners	Net income
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
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
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

# AUDITORS' REPORT

## Report of the auditors to the share owners of WPP Group plc

We have audited the accounts on pages 56 to 70, which have been prepared under the historical cost convention and the accounting policies set out on pages 56 and 57. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors on pages 84, 85 and 86.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 83, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statement on page 82 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

## Basis of audit opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 accounts 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 accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## Arthur Andersen

Chartered Accountants and Registered Auditors  
1 Surrey Street  
London  
WC2R 2PS  
10 May 2000