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Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the UK. 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 15), 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.

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 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 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 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 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
Fixtures, fittings and equipment – 10-33% per annum
Computer equipment – 33% per annum

5 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.

6 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.

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

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

9 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.

10 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.

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

The Group's accounting policy in respect of defined benefit schemes was revised during the year following the implementation of FRS 17 (Retirement Benefits) and is discussed in note 15 below.

12 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.

13 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. 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 compensation 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 compensation 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.

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.

Information & 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.

14 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 at year-end exchange rates of the opening net assets and results for the year are dealt with as movements in reserves.

15 Changes in accounting policies
The Group adopted FRS 17 (Retirement Benefits) during the year. 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 tax, is presented separately after other net assets on the face of the balance sheet.

Consolidated profit and loss account
For the year ended 31 December 2001

	Notes	2001 £m	2000 Restated[2] £m	1999 Restated[2] £m	2001 $m	2000 Restated[2] $m	1999 Restated[2] $m
Turnover (gross billings)	1	**20,886.9**	13,949.4	9,345.9	**30,079.2**	21,150.1	15,119.8
Cost of sales		**(16,865.2)**	(10,968.7)	(7,173.3)	**(24,287.5)**	(16,630.8)	(11,605.0)
Revenue	1	**4,021.7**	2,980.7	2,172.6	**5,791.7**	4,519.3	3,514.8
Direct costs		**(232.0)**	(244.6)	(317.3)	**(334.2)**	(370.8)	(513.3)
Gross profit		**3,789.7**	2,736.1	1,855.3	**5,457.5**	4,148.5	3,001.5
Operating costs excluding goodwill and exceptional items	2	**(3,269.4)**	(2,341.6)	(1,590.3)	**(4,708.3)**	(3,550.3)	(2,572.8)
Goodwill amortisation and impairment	2	**(14.8)**	(15.1)	–	**(21.3)**	(22.9)	–
Operating profit		**505.5**	379.4	265.0	**727.9**	575.3	428.7
Income from associates		**40.8**	38.0	27.3	**58.8**	57.6	44.2
Profit on ordinary activities before interest, taxation, investment gains and write-downs		**546.3**	417.4	292.3	**786.7**	632.9	472.9
Net gain on disposal of investments	4	**6.8**	–	–	**9.8**	–	–
Amounts written off fixed asset investments	4	**(70.8)**	–	–	**(102.0)**	–	–
Net interest payable and similar charges	5	**(71.3)**	(51.7)	(36.9)	**(102.7)**	(78.4)	(59.7)
Profit on ordinary activities before taxation		**411.0**	365.7	255.4	**591.8**	554.5	413.2
Taxation on profit on ordinary activities	6	**(126.1)**	(109.7)	(76.6)	**(181.6)**	(166.3)	(123.9)
Profit on ordinary activities after taxation		**284.9**	256.0	178.8	**410.2**	388.2	289.3
Minority interests		**(13.7)**	(11.3)	(6.0)	**(19.7)**	(17.1)	(9.7)
Profit attributable to ordinary share owners		**271.2**	244.7	172.8	**390.5**	371.1	279.6
Ordinary dividends	7	**(51.6)**	(37.8)	(24.0)	**(74.3)**	(57.3)	(38.8)
Retained profit for the year	25	**219.6**	206.9	148.8	**316.2**	313.8	240.8
PBIT[1]	1	**561.1**	432.5	292.3	**808.0**	655.8	472.9
PBIT[1] margin		**14.0%**	14.5%	13.5%	**14.0%**	14.5%	13.5%
PBT[1]		**489.8**	380.8	255.4	**705.3**	577.4	413.2
Headline earnings per share[3]	8						
Basic earnings per ordinary share		**31.8p**	31.1p	22.9p	**45.8¢**	47.2¢	37.0¢
Diluted earnings per ordinary share		**30.6p**	30.1p	22.5p	**44.1¢**	45.6¢	36.4¢
Standard earnings per share	8						
Basic earnings per ordinary share		**24.6p**	29.3p	22.9p	**35.4¢**	44.4¢	37.0¢
Diluted earnings per ordinary share		**23.7p**	28.4p	22.5p	**34.1¢**	43.1¢	36.4¢
Headline earnings per ADR[3]							
Basic earnings per ADR		**159.0p**	155.5p	114.5p	**$2.29**	$2.36	$1.85
Diluted earnings per ADR		**153.0p**	150.5p	112.5p	**$2.20**	$2.28	$1.82
Standard earnings per ADR							
Basic earnings per ADR		**123.0p**	146.5p	114.5p	**$1.77**	$2.22	$1.85
Fully diluted earnings per ADR		**118.5p**	142.0p	112.5p	**$1.71**	$2.15	$1.82

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 this page and page 62 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (2001: $1.4401 = £1, 2000: $1.5162 = £1, 1999: $1.6178 = £1) and the rate in effect on 31 December for the balance sheet (2001: $1.4542 = £1, 2000: $1.4937 = £1, 1999: $1.6182 = £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. 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 the year. For 2000, aggregated figures for acquisitions were revenue of £438.9 million, operating profit of £61.5 million and PBIT of £66.4 million. For 1999, there were no material acquisitions or discontinued operations.

[1] PBIT: Profit on ordinary activities before interest and taxation, excluding goodwill charges, investment gains and write-downs.
PBT: Profit on ordinary activities before taxation, excluding goodwill charges, investment gains and write-downs.
[2] The 2000 and 1999 profit and loss accounts have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements.
[3] Headline earnings per ordinary share and ADR excludes goodwill charges, investment gains and write-downs.

Consolidated cash flow statement
For the year ended 31 December 2001

	Notes	2001 £m	2000 Restated £m	1999 Restated £m
Operating profit		**505.5**	379.4	265.0
Depreciation, amortisation and impairment charge		**124.7**	78.9	42.2
Movements in working capital	10	**(166.4)**	260.7	83.7
Movements in provisions, other debtors and creditors	10	**(291.6)**	(95.9)	(41.8)
Loss on sale of tangible fixed assets		**1.7**	1.3	0.9
Net cash inflow from operating activities		**173.9**	624.4	350.0
Dividends received from associates		**14.7**	7.6	4.3
Return on investments and servicing of finance	11	**(56.4)**	(66.0)	(38.6)
UK and overseas tax paid		**(77.5)**	(81.4)	(58.4)
Capital expenditure and financial investment	11	**(217.2)**	(199.1)	(80.5)
Acquisition payments	11	**(730.3)**	(281.0)	(202.2)
Equity dividends paid		**(44.4)**	(25.6)	(21.1)
Net cash outflow before management of liquid resources and financing		**(937.2)**	(21.1)	(46.5)
Management of liquid resources	9	**(76.8)**	–	–
Net cash inflow from financing	11	**499.0**	204.6	270.0
(Decrease)/increase in cash and overdrafts for the year		**(515.0)**	183.5	223.5
Translation difference		**10.7**	35.1	(0.6)
Balance of cash and overdrafts at beginning of year		**770.0**	551.4	328.5
Balance of cash and overdrafts at end of year		**265.7**	770.0	551.4
Reconciliation of net cash flow to movement in net funds:				
(Decrease)/increase in cash and overdrafts for the year		**(515.0)**	183.5	223.5
Cash outflow from increase in liquid resources	9	**76.8**	–	–
Cash inflow from increase in debt financing		**(430.0)**	(126.6)	(258.0)
Debt acquired		**–**	(194.9)	–
Other movements		**(1.1)**	(1.9)	(1.7)
Translation difference		**8.8**	23.4	(6.2)
Movement in net debt in the year		**(860.5)**	(116.5)	(42.4)
Net (debt)/funds at beginning of year	9	(24.6)	91.9	134.3
Net (debt)/funds at end of year	9	**(885.1)**	(24.6)	91.9

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 2001

	Notes	2001 £m	2000 Restated £m	1999 Restated £m
Profit for the financial year		**271.2**	244.7	172.8
Exchange adjustments on foreign currency net investments	25	**(80.6)**	(133.0)	(31.2)
Actuarial loss on defined benefit pension schemes in accordance with FRS 17 (Retirement Benefits)	25	**(43.0)**	(27.0)	(10.4)
Total recognised gains and losses relating to the year		**147.6**	84.7	131.2
Prior year adjustment on implementation of FRS 17 (Retirement Benefits)		**(2.6)**		
Total gains and losses recognised since last annual report		**145.0**		

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

Consolidated balance sheet
As at 31 December 2001

	Notes	2001 £m	2000 Restated[1] £m	1999 Restated[1] £m	2001 $m	2000 Restated[1] $m	1999 Restated[1] $m
Fixed assets							
Intangible assets							
Corporate brands	13	**950.0**	950.0	350.0	**1,381.5**	1,419.0	566.4
Goodwill	13	**4,439.9**	3,497.3	410.3	**6,456.5**	5,223.9	663.9
Tangible assets	14	**432.8**	390.2	196.7	**629.4**	582.8	318.3
Investments	15	**553.5**	551.5	356.9	**804.9**	823.8	577.6
		6,376.2	5,389.0	1,313.9	**9,272.3**	8,049.5	2,126.2
Current assets							
Stocks and work in progress	16	**236.9**	241.1	113.5	**344.5**	360.1	183.7
Debtors	17	**2,391.8**	2,181.0	1,068.4	**3,478.2**	3,257.8	1,728.9
Debtors within working capital facility:	18						
Gross debts		**331.0**	464.9	345.7	**481.3**	694.4	559.4
Non-returnable proceeds		**(82.5)**	(231.6)	(214.1)	**(119.9)**	(345.9)	(346.4)
		248.5	233.3	131.6	**361.4**	348.5	213.0
Current asset investments	9	**76.8**	–	–	**111.7**	–	–
Cash at bank and in hand		**585.6**	1,067.6	607.0	**851.6**	1,594.7	982.1
		3,539.6	3,723.0	1,920.5	**5,147.4**	5,561.1	3,107.7
Creditors: amounts falling due within one year	19	**(4,322.0)**	(4,252.4)	(2,148.0)	**(6,285.1)**	(6,351.8)	(3,475.9)
Net current liabilities		**(782.4)**	(529.4)	(227.5)	**(1,137.7)**	(790.7)	(368.2)
Total assets less current liabilities		**5,593.8**	4,859.6	1,086.4	**8,134.6**	7,258.8	1,758.0
Creditors: amounts falling due after more than one year (including convertible loan note)	20	**(1,711.5)**	(1,279.6)	(652.5)	**(2,488.9)**	(1,911.3)	(1,055.8)
Provisions for liabilities and charges	21	**(106.1)**	(98.2)	(46.6)	**(154.3)**	(146.7)	(75.5)
Net assets excluding pension provision		**3,776.2**	3,481.8	387.3	**5,491.4**	5,200.8	626.7
Pension provision	22	**(135.3)**	(87.7)	(45.6)	**(196.8)**	(131.0)	(73.8)
Net assets including pension provision		**3,640.9**	3,394.1	341.7	**5,294.6**	5,069.8	552.9
Capital and reserves							
Called up share capital	24,25	**115.0**	111.2	77.5	**167.2**	166.1	125.4
Share premium account	25	**805.2**	709.0	602.9	**1,170.9**	1,059.0	975.6
Shares to be issued	25	**238.6**	386.7	–	**347.0**	577.6	–
Merger reserve	25	**2,824.7**	2,630.2	121.3	**4,107.7**	3,928.7	196.3
Other reserves	25	**(336.8)**	(256.2)	(123.2)	**(489.8)**	(382.6)	(199.4)
Profit and loss account	25	**(46.9)**	(211.0)	(345.3)	**(68.2)**	(315.2)	(558.8)
Equity share owners' funds		**3,599.8**	3,369.9	333.2	**5,234.8**	5,033.6	539.1
Minority interests		**41.1**	24.2	8.5	**59.8**	36.2	13.8
Total capital employed		**3,640.9**	3,394.1	341.7	**5,294.6**	5,069.8	552.9

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

[1] The 2000 and 1999 balance sheets have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements.

Signed on behalf of the Board on 9 May 2002:
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 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 & 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 North America, 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:

	Total 2001 £m	Change %	2000 Restated[2] £m	Change %	1999 Restated[2] £m
Turnover					
UK	**1,664.6**	24.6	1,336.3	17.9	1,133.7
US	**10,708.6**	77.8	6,023.8	49.8	4,021.3
Continental Europe	**4,445.0**	32.9	3,344.3	50.0	2,230.2
Canada, Asia Pacific, Latin America, Africa & Middle East	**4,068.7**	25.4	3,245.0	65.5	1,960.7
	20,886.9	49.7	13,949.4	49.3	9,345.9
Revenue					
UK	**627.3**	17.8	532.4	22.5	434.7
US	**1,763.1**	38.4	1,273.6	39.2	915.2
Continental Europe	**870.9**	48.5	586.3	37.6	426.2
Canada, Asia Pacific, Latin America, Africa & Middle East	**760.4**	29.2	588.4	48.4	396.5
	4,021.7	34.9	2,980.7	37.2	2,172.6
PBIT[1]					
UK	**73.9**	5.1	70.3	35.2	52.0
US	**257.6**	28.6	200.3	43.1	140.0
Continental Europe	**119.7**	45.8	82.1	47.1	55.8
Canada, Asia Pacific, Latin America, Africa & Middle East	**109.9**	37.7	79.8	79.3	44.5
	561.1	29.7	432.5	48.0	292.3

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	Total 2001 £m	Change %	2000 Restated[2] £m	Change %	1999 Restated[2] £m
Turnover					
Advertising and Media investment management	**17,347.8**	51.4	11,455.6	49.0	7,690.1
Information & consultancy	**757.8**	46.4	517.5	21.6	425.5
Public relations & public affairs	**617.5**	46.2	422.5	112.2	199.1
Branding & identity, Healthcare and Specialist communications	**2,163.8**	39.3	1,553.8	50.7	1,031.2
	20,886.9	49.7	13,949.4	49.3	9,345.9
Revenue					
Advertising and Media investment management	**1,841.5**	31.6	1,399.0	38.1	1,013.1
Information & consultancy	**590.3**	15.3	512.1	22.0	419.7
Public relations & public affairs	**502.1**	52.1	330.1	84.5	178.9
Branding & identity, Healthcare and Specialist communications	**1,087.8**	47.1	739.5	31.8	560.9
	4,021.7	34.9	2,980.7	37.2	2,172.6
PBIT[1]					
Advertising and Media investment management	**319.4**	37.2	232.8	47.9	157.4
Information & consultancy	**57.6**	11.6	51.6	22.6	42.1
Public relations & public affairs	**48.3**	11.8	43.2	80.8	23.9
Branding & identity, Healthcare and Specialist communications	**135.8**	29.5	104.9	52.2	68.9
	561.1	29.7	432.5	48.0	292.3

[1] PBIT: Profit on ordinary activities before interest and taxation, excluding goodwill charges, investment gains and write-downs.
[2] PBIT has been restated following the implementation of FRS 17 (Retirement Benefits) in the Group's 2000 and 1999 financial statements. The impact of this restatement on PBIT is to increase PBIT in 2000 from £431.1 million (1999: £290.8 million) to £432.5 million (1999: £292.3 million).

2 Operating costs

	2001 £m	2000 Restated £m	1999 Restated £m
Total staff costs (note 3)	**2,268.9**	1,616.2	1,089.8
Establishment costs	**313.6**	216.8	158.3
Other operating expenses (net)	**685.2**	507.3	341.3
Loss on sale of tangible fixed assets	**1.7**	1.3	0.9
Operating costs excluding goodwill and exceptional items	**3,269.4**	2,341.6	1,590.3
Goodwill amortisation and impairment	**14.8**	15.1	–
Total operating costs	**3,284.2**	2,356.7	1,590.3
Operating expenses include:			
Depreciation of tangible fixed assets	**109.9**	63.8	42.2
Amortisation of intangible fixed assets	**14.8**	6.6	–
Impairment of intangible fixed assets	**–**	8.5	–
Operating lease rentals:			
Property (excluding real estate taxes)	**186.7**	125.2	83.1
Plant and machinery	**23.4**	21.8	19.6
	210.1	147.0	102.7

2 Operating costs continued

	2001 £m	2000 £m	1999 £m
Auditors' remuneration:			
Audit fees			
– Arthur Andersen	**5.1**	3.7	2.4
– other	**0.5**	0.4	0.3
	5.6	4.1	2.7
Fees in respect of other advisory work:			
– Audit-related services	**10.0**	6.0	2.7
– Non-audit related	**1.7**	0.4	1.0
	11.7	6.4	3.7

Fees paid to the auditors in respect of other advisory work include advice to the Group on taxation, due diligence and transaction services and, in 2001, work performed in connection with the acquisition of Tempus Group plc. In 2001 audit costs of £6.5 million (2000: £3.9 million, 1999: £1.3 million) were capitalised.

Minimum committed annual rentals
Amounts payable (net of taxes) in 2002 under the foregoing leases will be as follows:

	Plant and machinery 2002 £m	Plant and machinery 2001 £m	Plant and machinery 2000 £m	Property 2002 £m	Property 2001 £m	Property 2000 £m
In respect of operating leases which expire:						
– within one year	**7.6**	5.4	4.7	**33.4**	10.2	4.8
– within two to five years	**20.8**	16.2	15.9	**72.1**	39.1	24.7
– after five years	**1.4**	0.3	1.5	**90.9**	62.3	65.8
	29.8	21.9	22.1	**196.4**	111.6	95.3

2 Operating costs continued

Future minimum annual amounts payable (net of taxes) under all lease commitments in existence at 31 December 2001 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2002	226.2	(9.6)	216.6
2003	188.2	(7.7)	180.5
2004	169.4	(7.4)	162.0
2005	148.5	(7.2)	141.3
2006	114.3	(4.2)	110.1
Later years (to 2012)	337.0	(18.9)	318.1
	1,183.6	**(55.0)**	**1,128.6**

3 Our people

Our staff numbers averaged 50,487 against 36,157 in 2000, up 39.6%, including acquisitions. Their geographical distribution was as follows:

	2001 Number	2000 Number	1999 Number
UK	**6,797**	5,425	4,439
US	**14,831**	11,058	8,033
Continental Europe	**13,006**	7,985	5,650
Canada, Asia Pacific, Latin America, Africa & Middle East	**15,853**	11,689	9,589
	50,487	36,157	27,711

At the end of 2001 staff numbers were 51,009 compared with 51,195 in 2000.

Total staff costs were made up as follows:

	2001 £m	2000 Restated £m	1999 Restated £m
Wages and salaries	**1,664.0**	1,125.1	763.6
Payments and provisions charged under short- and long-term incentive plans	**81.1**	118.3	71.3
Social security costs	**182.2**	120.5	86.3
Other pension costs	**55.7**	39.4	26.2
Other staff costs	**285.9**	212.9	142.4
	2,268.9	1,616.2	1,089.8
Staff cost to revenue ratio	**56.4%**	54.2%	50.2%

Directors' emoluments are disclosed on page 88.

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

Investment gains

The net gain on disposal of investments comprises:

	£m
Gain on disposal of shares in Singleton Group Limited	12.0
Gain on disposal of shares in Chime Communications plc	4.7
Gains on disposals of investments	**16.7**
Loss on disposal of Symmetrical Holdings Inc	(9.9)
Net gain on disposal of investments	**6.8**

The tax effect of these gains was a charge of £8.6 million, relating primarily to the disposal of Singleton Group Limited shares.

Write-down of fixed asset investments

Amounts written off fixed asset investments relate to write-downs of the Group's non-core minority investments in new media companies and other technology ventures in light of the collapse in technology equity valuations. Write-downs were determined based upon market values at 31 December 2001 for listed holdings and on valuations utilised for latest funding rounds together with latest trading information for unlisted investments. Businesses that are in financial difficulties and have ceased trading or are shortly expected to cease trading have been fully written down.

These write-downs have had no material impact on the tax charge.

Other items

During 2001 £22.5 million (2000: £7.9 million) of excess provisions established in respect of acquisitions completed in 1999 and prior years were released to the profit and loss account within operating profit. Management believe that the quality of earnings was not in any way impacted as a result of these provision releases as there were a number of charges within operating profit that, although recurring in nature, were at a considerably higher level than would normally be expected. These items principally comprised increased severance expenses and bad debt write offs that were caused by the deterioration in the economic environment in the Group's major markets.

Tax provisions of £15.5 million established in prior years were released within the tax line as they are now considered to be excess.

5 Net interest payable and similar charges

	2001 £m	2000 Restated £m	1999 Restated £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**6.2**	3.2	3.7
– repayable within five years, not by instalments	**45.5**	38.7	16.0
– on all other loans (including corporate bond)	**39.9**	14.7	14.1
Total interest payable	**91.6**	56.6	33.8
Interest receivable	**(35.2)**	(22.5)	(10.4)
Net interest payable	**56.4**	34.1	23.4
Charges in respect of working capital facilities	**11.1**	16.2	12.0
Net return on pension schemes	**3.8**	1.4	1.5
	71.3	51.7	36.9

Net interest payable increased to £56.4 million from £34.1 million, reflecting the increased level of acquisitions and share repurchases during the year as well as the inclusion of Y&R debt for the entire year.

Interest payable on the Group's borrowings, other than the USA bond and the Eurobond, is payable at a margin of between 0.4% and 0.6% 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%, €1 billion Eurobonds at a rate of 5.69% (prior to interest rate 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 $533.7 million at an average interest rate of 4.7% (2000 6.2%, 1999 6.1%) inclusive of margin.

Derivative financial instruments

The Group entered into various types of US dollar and euro interest rate contracts in managing its interest rates.

	2001 €	**2001 $**	2000 $	1999 $
Swaps				
Notional principal amount	**€400m**	**$250m**	$350m	$350m
Average pay rate	**EURIBOR +0.81%**	**6.2%**	6.17%	6.17%
Average receive rate	**6.0%**	**LIBOR**	LIBOR	LIBOR
Average term	**79 months**	**10 months**	5 months	5 months
Latest maturity date	**Jun 2008**	**Jan 2003**	Jan 2003	Jan 2003

The Group enters into interest rate swap agreements to manage its proportion of fixed and floating rate debt.

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 23. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 32 and 33.

6 Tax on profit on ordinary activities

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

	2001 £m	2000 £m	1999 £m
Corporation tax at 30% (2000: 30%, 1999: 30.25%)	**24.9**	6.4	12.4
Deferred taxation	**(5.5)**	(10.6)	(0.7)
Overseas taxation	**97.2**	100.3	56.5
Tax on profits of associate companies	**16.4**	13.6	8.1
Advance corporation tax written off	**–**	–	0.3
Tax on investment gains and other items (note 4)	**(6.9)**	–	–
	126.1	109.7	76.6
Effective tax rate on profit before tax	**30.7%**	30.0%	30.0%

6 Tax on profit on ordinary activities continued

	2001 £m	2000 £m	1999 £m
Total current tax	**122.1**	106.7	69.2
Total deferred tax	**(5.5)**	(10.6)	(0.7)
Share of associates tax	**16.4**	13.6	8.1
Tax on investment gains and other items (note 4)	**(6.9)**	–	–
Total tax on profits on ordinary activities	**126.1**	109.7	76.6
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2000: 30%, 1999: 30.25%)	**111.1**	98.3	69.0
Effects of:			
Utilisation of tax losses brought forward	**(16.1)**	(9.7)	(4.7)
Unused tax losses carried forward	**22.9**	9.4	6.3
Y&R acquisition attributes	**(32.1)**	–	–
Differences between UK and overseas statutory tax rates	**19.4**	12.8	1.7
Permanent differences between expenditures charged in arriving at income and expenditure allowed for tax purposes	**16.9**	(4.1)	(3.4)
Advance corporation tax written off	**–**	–	0.3
Total current tax	**122.1**	106.7	69.2

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 £428 million.

7 Ordinary dividends

	2001	2000	1999	**2001**	2000	1999
Per share	Pence per share			**£m**	£m	£m
Interim dividend paid	**1.44p**	1.20p	1.00p	**16.4**	9.3	7.8
Final dividend proposed	**3.06p**	2.55p	2.10p	**35.2**	28.5	16.2
	4.50p	3.75p	3.10p	**51.6**	37.8	24.0
Per ADR	Cents per ADR			**$m**	$m	$m
Interim dividend paid	**10.4¢**	9.1¢	8.1¢	**23.6**	14.1	12.6
Final dividend proposed	**22.0¢**	19.3¢	17.0¢	**50.7**	43.2	26.2
	32.4¢	28.4¢	25.1¢	**74.3**	57.3	38.8

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 £271.2 million (2000: £244.7 million, 1999: £172.8 million), and adjusted for goodwill charges, investment gains and write-downs of £78.8 million (2000: £15.1 million, 1999: £nil). The weighted average shares in issue used was 1,101,937,750 shares (2000: 834,280,801 shares, 1999: 753,324,054 shares).

Headline diluted earnings per share have been calculated using earnings of £271.2 million (2000: £244.7 million, 1999: £172.8 million), and adjusted for goodwill charges, investment gains and write-downs of £78.8 million (2000: £15.1 million, 1999: £nil) and for income arising on the convertible loan note of £3.6 million (2000: £0.9 million, 1999: £nil). The weighted average shares used was 1,157,080,255 shares (2000: 865,978,000 shares, 1999: 768,691,993 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings and the $287.5 million of convertible bond.

Standard basic earnings per share have been calculated using earnings of £271.2 million (2000: £244.7 million, 1999: £172.8 million) and weighted average shares in issue during the year of 1,101,937,750 shares (2000: 834,280,801 shares, 1999: 753,324,054 shares).

Standard diluted earnings per share have been calculated using earnings of £271.2 million (2000: £244.7 million, 1999: £172.8 million), and adjusted for income arising on the convertible loan note of £3.6 million (2000: £0.9 million, 1999: £nil). The weighted average shares used was 1,157,080,255 shares (2000: 865,978,000 shares, 1999: 768,691,993 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings and the $287.5 million of convertible bond. 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 2001, there were 1,149,583,610 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:

	2001 Shares £m	**2001 Debt £m**	2000 Shares £m	2000 Debt £m	1999 Shares £m	1999 Debt £m
Analysis of changes in financing						
Beginning of year	**820.2**	**794.6**	680.4	459.5	639.5	194.2
Shares issued in respect of acquisitions	**0.7**	**–**	30.2	–	–	–
Other issues of share capital	**99.3**	**–**	109.6	–	40.9	–
Increase in drawings on bank loans	**–**	**439.0**	–	126.6	–	258.0
Debt acquired	**–**	**–**	–	194.9	–	–
Net amortisation/(payment) of financing costs included in net debt	**–**	**(8.0)**	–	0.5	–	1.7
Exchange adjustments on long-term borrowings	**–**	**2.0**	–	13.1	–	5.6
End of year	**920.2**	**1,227.6**	820.2	794.6	680.4	459.5

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

9 Sources of finance continued

Shares

At 31 December 2001, the Company's share base was entirely composed of ordinary equity share capital and share premium of £920.2 million (2000: £820.2 million, 1999: £680.4 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 During 2001 the Group issued €350 million of 5.125% bonds due 2004 and €650 million bonds of 6.0% due 2008.

Revolving Credit Facilities The Group's debt is also funded by a five-year $750 million Revolving Credit Facility signed in September 2001. A new facility of £360 million was arranged to acquire Tempus Group plc. This new facility was cancelled as at April 2002. The Group's syndicated borrowings drawn down under these agreements averaged $533.7 million. The Group had available undrawn committed facilities of £664 million at 31 December 2001 (2000: £407 million, 1999: £124 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 Notes due 15 January 2005. At the option of the holder, the notes are convertible into shares of our common stock at a conversion price of $87.856 per ADR. The notes may be redeemed at WPP's option on or after 20 January 2003. Interest on the notes is payable on 15 January and 15 July of each year, beginning on 15 July 2000. The notes are unsecured obligations of Y&R and are guaranteed by WPP.

In March 2002, the Group announced the issue of £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.

Current asset investments/liquid resources

At 31 December 2001, the Group had £76.8 million (2000: £Nil, 1999: £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:

	2001 £m	**Change[1] in year £m**	2000 £m	Change in year £m	1999 £m
Debt					
Within one year	**–**	**–**	–	92.7	(92.7)
Between one and two years	**(221.7)**	**(221.7)**	–	–	–
Between two and five years	**(546.0)**	**181.7**	(727.7)	(544.6)	(183.1)
Over five years – by instalments	**(459.9)**	**(393.0)**	(66.9)	116.8	(183.7)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	**(1,227.6)**	**(433.0)**	(794.6)	(335.1)	(459.5)
Short-term overdrafts – within one year	**(319.9)**	**(22.3)**	(297.6)	(242.0)	(55.6)
Cash at bank and in hand	**585.6**	**(482.0)**	1,067.6	460.6	607.0
Current asset investments	**76.8**	**76.8**	–	–	–
Net (debt)/funds	**(885.1)**	**(860.5)**	(24.6)	(116.5)	91.9

[1] Includes £Nil (2000: £194.9 million) of debt, £86.5 million (2000: £117.1 million) of short-term overdrafts and £65.4 million (2000: £83.5 million) of cash at bank acquired.

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

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			

[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:

	2001 £m	2000 £m	1999 £m
Changes in working capital and provisions			
Decrease/(increase) in stocks and work in progress	**18.1**	(14.7)	(1.5)
(Increase) in debtors	**(4.7)**	(434.9)	(165.3)
(Decrease)/increase in creditors – short term	**(473.4)**	537.8	155.4
– long term	**(25.4)**	1.7	43.2
Increase in provisions	**27.4**	74.9	10.1
(Increase)/decrease in working capital and provisions	**(458.0)**	164.8	41.9

11 Analysis of non-operating cash flows
The following tables analyse the items included within the main cash flow headings on page 61:

	2001 £m	2000 Restated £m	1999 Restated £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(84.2)**	(76.2)	(43.5)
Interest received	**38.6**	17.9	9.3
Dividends paid to minorities	**(10.8)**	(7.7)	(4.4)
Net cash outflow	**(56.4)**	(66.0)	(38.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 14)	**(118.1)**	(111.9)	(64.6)
Purchase of own shares by ESOP trust (note 15)	**(103.3)**	(94.1)	(17.9)
Proceeds from sale of tangible fixed assets	**4.2**	6.9	2.0
Net cash outflow	**(217.2)**	(199.1)	(80.5)
Acquisition payments			
Cash consideration for acquisitions	**(692.8)**	(206.5)	(242.2)
Less (overdraft)/cash acquired	**(21.1)**	(33.6)	51.8
Purchase of other investments	**(43.2)**	(40.9)	(11.8)
Proceeds from disposal of other investments	**26.8**	–	–
Net cash outflow	**(730.3)**	(281.0)	(202.2)
Financing activities			
(Reduction)/increase in drawings on bank loans	**(175.3)**	126.6	258.0
Financing costs	**(8.8)**	–	–
Proceeds from issue of shares	**69.0**	78.0	12.0
Proceeds from issue of Eurobond	**614.1**	–	–
Net cash inflow	**499.0**	204.6	270.0

Long-term debt repayments are due as follows:

	2001 £m
2002	**–**
2003	**221.7**
2004	**212.0**
2005	**334.0**
2006	**–**
2007 and beyond	**459.9**

12 Segment information
Assets by geographical area were as follows:

	Total assets employed 2001 £m	2000 £m	1999 £m	Non-interest bearing assets/(liabilities) 2001 £m	2000 Restated £m	1999 Restated £m
UK	**1,636.2**	981.8	624.6	**752.6**	148.2	135.2
US	**5,240.5**	5,131.0	990.4	**2,821.3**	2,606.5	(294.8)
Continental Europe	**1,501.2**	1,454.5	714.7	**450.3**	279.3	138.7
Canada, Asia Pacific, Latin America, Africa & Middle East	**1,537.9**	1,544.7	904.7	**501.8**	384.7	270.7
	9,915.8	9,112.0	3,234.4	**4,526.0**	3,418.7	249.8
Net interest bearing (debt)/funds				**(885.1)**	(24.6)	91.9
Net assets in the consolidated balance sheet				**3,640.9**	3,394.1	341.7

Assets by operating sector were as follows:

	Total assets employed 2001 £m	2000 £m	1999 £m	Non-interest bearing assets/(liabilities) 2001 £m	2000 Restated £m	1999 Restated £m
Advertising and Media investment management	**7,258.3**	6,494.9	1,878.8	**3,548.5**	2,542.4	(244.3)
Information & consultancy	**706.5**	630.1	455.0	**310.7**	154.6	173.5
Public relations & public affairs	**563.5**	552.7	247.7	**241.4**	223.3	121.4
Branding & identity, Healthcare and Specialist communications	**1,387.5**	1,434.3	652.9	**425.4**	498.4	199.2
	9,915.8	9,112.0	3,234.4	**4,526.0**	3.418.7	249.8
Net interest bearing (debt)/funds				**(885.1)**	(24.6)	91.9
Net assets in the consolidated balance sheet				**3,640.9**	3,394.1	341.7

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

	2001 £m	2000 £m	1999 £m
Corporate brand names	**950.0**	950.0	350.0

Brought forward corporate brand names represent J. Walter Thompson, Hill and 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 58.

Goodwill	£m
1 January 2000	410.3
Additions	3,102.1
Amortisation	(6.6)
Impairment	(8.5)
31 December 2000	3,497.3
Additions	957.7
Amortisation	(14.8)
Disposals	(0.3)
31 December 2001	**4,439.9**

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 £340 million (2000: £131 million) is subject to amortisation.

14 Tangible fixed assets
The movements in 2001 and 2000 were as follows:

	Land and buildings: Freehold[1] £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost:					
1 January 2000	12.4	141.6	118.9	164.2	437.1
Additions	1.0	31.2	22.4	57.3	111.9
New acquisitions	57.8	66.2	111.4	104.0	339.4
Disposals	(0.6)	(6.0)	(9.0)	(10.2)	(25.8)
Exchange adjustments	(0.3)	6.8	3.6	4.3	14.4
31 December 2000	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**
Depreciation:					
1 January 2000	3.3	60.9	75.6	100.6	240.4
New acquisitions	15.5	29.9	74.3	69.9	189.6
Charge	0.7	13.5	10.0	39.6	63.8
Disposals	(0.5)	(1.8)	(5.2)	(10.1)	(17.6)
Exchange adjustments	(0.3)	3.9	3.1	3.9	10.6
31 December 2000	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**
Net book value:					
31 December 2001	**51.4**	**144.3**	**98.0**	**139.1**	**432.8**
31 December 2000	51.6	133.4	89.5	115.7	390.2
1 January 2000	9.1	80.7	43.3	63.6	196.7

[1] Includes land of £18.3 million.
Leased assets (other than leasehold property) included above have a net book value of £3.8 million (2000: £3.6 million, 1999: £3.1 million).

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

	2001 £m	2000 £m	1999 £m
Capital commitments	**3.7**	12.6	1.4

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

	Associate undertakings £m	Goodwill on associate undertakings £m	Own shares £m	Other investments £m	Total £m
1 January 2000	107.2	131.1	71.3	47.3	356.9
Additions	50.6	–	94.1	42.3	187.0
Goodwill arising on acquisition of new associates	–	5.1	–	–	5.1
Share of profits after tax of associate undertakings	22.1	–	–	–	22.1
Dividends and other movements	(9.4)	5.8	–	(5.8)	(9.4)
Exchange adjustments	(4.7)	–	–	–	(4.7)
Disposals	–	–	(5.2)	(0.3)	(5.5)
31 December 2000	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**

15 Fixed asset investments continued
The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Brierley & Partners	20.3	US
Chime Communications PLC	20.5	UK
DYR Tokyo Agency	49.0	Japan
High Co S.A.	33.0	France
IBOPE Group	31.15	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 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 94 to 100.

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 2001 was 48,716,092, (2000: 36,208,185, 1999: 27,888,766) and £370.2 million (2000: £315.7 million, 1999: £273.6 million) respectively.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2001 was as follows: Asatsu-DK – £138.3 million, Chime Communications PLC – £39.9 million, High Co S.A. – £46.1 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

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

	2001 £m	2000 £m	1999 £m
Work in progress	**234.4**	238.2	110.4
Stocks	**2.5**	2.9	3.1
	236.9	241.1	113.5

17 Debtors
The following are included in debtors:

	2001 £m	2000 £m	1999 £m
Amounts falling due within one year			
Trade debtors outside working capital facility	**1,840.5**	1,699.4	770.0
VAT and sales taxes recoverable	**31.9**	20.9	13.5
Corporate income taxes recoverable	**22.6**	13.2	8.7
Deferred tax	**61.5**	57.4	28.0
Other debtors	**266.6**	229.6	143.4
Prepayments and accrued income	**106.6**	121.4	64.3
	2,329.7	2,141.9	1,027.9
Amounts falling due after more than one year			
Other debtors	**42.7**	31.2	34.7
Prepayments and accrued income	**19.4**	7.9	5.8
	62.1	39.1	40.5
	2,391.8	2,181.0	1,068.4

Movements on bad debt provisions were as follows:

	2001 £m	2000 £m	1999 £m
Balance at beginning of year	**50.6**	16.6	16.5
Charged/(credited):			
To costs and expenses	**15.3**	16.5	4.0
Exchange adjustments	**4.1**	0.8	(0.1)
Other	**(6.2)**	16.7	(3.8)
Balance at end of year	**63.8**	50.6	16.6

The allowance for bad and doubtful debts is equivalent to 3.1% (2000: 2.6%, 1999: 1.8%) of gross trade accounts receivable.

A deferred tax asset of £122 million has not been recognised on losses available to carry forward 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.

18 Debtors within working capital facility

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

	2001 £m	2000 £m	1999 £m
Gross debts	**331.0**	464.9	345.7
Non-returnable proceeds	**(82.5)**	(231.6)	(214.1)
	248.5	233.3	131.6

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.

19 Creditors: amounts falling due within one year

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

	2001 £m	2000 £m	1999 £m
Bank loans and overdrafts (note 9)	**319.9**	297.6	148.3
Trade creditors	**2,506.2**	2,574.9	1,315.0
Corporate income taxes payable	**51.3**	42.4	34.6
Other taxation and social security	**116.1**	122.5	68.9
Dividends proposed	**35.2**	28.5	16.2
Payments due to vendors	**103.1**	94.1	41.2
Other creditors and accruals	**868.0**	824.8	398.0
Deferred income	**322.2**	267.6	125.8
	4,322.0	4,252.4	2,148.0

Bank loans and overdrafts include overdrafts of £319.9 million (2000: £297.6 million, 1999: £55.6 million).

20 Creditors: amounts falling due after more than one year

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

	2001 £m	2000 £m	1999 £m
Corporate bond, convertible loan note and bank loans (note 9)	**1,227.6**	794.6	366.8
Corporate income taxes payable	**222.2**	212.5	122.9
Payments due to vendors	**185.1**	208.2	131.2
Other creditors and accruals	**76.6**	64.3	31.6
	1,711.5	1,279.6	652.5

21 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Other post-retirement benefits Restated £m	Long-term incentive plans £m	Property and other £m	Total £m
1 January 2000	9.3	22.6	14.7	46.6
Charged to the profit and loss account	5.2	17.5	1.2	23.9
New acquisitions	–	–	27.6	27.6
Utilised	(2.0)	(9.3)	(4.1)	(15.4)
Transfers	9.9	–	2.1	12.0
Exchange adjustments	0.3	1.4	1.8	3.5
31 December 2000	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**

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 2001 that may become payable after more than one year, as described in the Compensation committee report on pages 94 to 100.

21 Provisions for liabilities, charges and contingent liabilities continued

Property and other

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 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.

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:

	2001 £m	2000 £m	1999 £m
Defined contribution schemes	**41.4**	30.1	21.3
Defined benefit schemes	**18.1**	10.7	6.4
	59.5	40.8	27.7

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. These valuations have generally been updated by the local independent qualified actuaries to the balance sheet dates.

The Group has a policy of closing defined benefit schemes to new members which has been effected in respect of the majority 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 2001 amounted to £13.5 million.

(a) Assumptions

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

	2001 % pa	2000 % pa	1999 % pa	1998 % pa
UK				
Discount rate	**5.8**	5.5	5.8	5.8
Rate of increase in salaries	**3.3**	3.7	3.9	3.3
Rate of increase in pensions in payment	**3.8**	3.9	4.0	3.8
Inflation	**2.5**	3.0	3.3	2.5
Expected rate of return on equities	**7.5**	7.5	7.5	7.5
Expected rate of return on bonds[1]	**5.0**	5.0	5.0	5.0
Expected rate of return on property	**7.0**	7.0	7.0	7.0
Expected rate of return on cash	**3.0**	3.0	3.0	3.0
US				
Discount rate	**7.5**	7.9	7.4	6.9
Rate of increase in salaries	**6.2**	6.2	5.9	5.5
Rate of increase in pensions in payment	**–**	–	–	–
Inflation	**3.4**	4.0	3.8	2.6
Expected rate of return on equities	**10.0**	10.0	10.0	10.0
Expected rate of return on bonds[1]	**7.0**	7.0	7.0	7.0
Expected rate of return on property	**–**	–	–	–
Expected rate of return on cash	**3.5**	3.5	3.5	3.5
Continental Europe				
Discount rate	**5.9**	6.3	6.3	6.1
Rate of increase in salaries	**2.4**	2.4	2.4	2.8
Rate of increase in pensions in payment	**1.0**	0.8	0.9	1.1
Inflation	**1.5**	2.0	1.9	2.0
Expected rate of return on equities	**6.0**	6.0	6.0	6.0
Expected rate of return on bonds[1]	**6.2**	6.2	6.2	6.2
Expected rate of return on property	**6.0**	6.0	6.0	6.0
Expected rate of return on cash	**6.0**	6.0	6.0	6.0
Canada, Asia Pacific, Latin America, Africa & Middle East				
Discount rate	**4.3**	4.1	4.0	3.6
Rate of increase in salaries	**2.5**	2.6	2.6	2.7
Rate of increase in pensions in payment	**–**	–	–	–
Inflation	**–**	–	–	–
Expected rate of return on equities	**–**	–	–	–
Expected rate of return on bonds[1]	**5.1**	4.8	5.1	4.5
Expected rate of return on property	**–**	–	–	–
Expected rate of return on cash	**–**	–	–	–

[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.

Notes to the consolidated balance sheet continued

22 Pension provisions and pension arrangements continued

(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:

	2001 £m	2000 £m	1999 £m	1998 £m
Group				
Equities	**152.9**	159.7	80.5	77.4
Bonds	**156.2**	178.5	153.0	144.4
Property	**10.2**	11.0	10.7	10.3
Cash	**4.1**	4.4	4.3	4.0
Total fair value of assets	**323.4**	353.6	248.5	236.1
Present value of scheme liabilities	**458.7**	441.3	294.1	271.5
Deficit in the scheme	**(135.3)**	(87.7)	(45.6)	(35.4)

The related deferred tax asset is discussed in note 17.

	2001 £m	2000 £m	1999 £m	1998 £m
(Liability)/asset in the scheme by region				
UK	**(19.3)**	(13.7)	(12.3)	2.5
US	**(84.6)**	(45.1)	(13.3)	(14.2)
Continental Europe	**(23.7)**	(21.2)	(12.2)	(15.8)
Canada, Asia Pacific, Latin America, Africa & Middle East	**(7.7)**	(7.7)	(7.8)	(7.9)
Deficit in the scheme	**(135.3)**	(87.7)	(45.6)	(35.4)

(c) Pensions 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):

	2001 £m	2000 £m	1999 £m
Group			
Current service cost	**13.3**	9.3	4.9
Past service cost	**1.8**	–	–
Gain on settlements and curtailments	**(0.8)**	–	–
Charge to operating profit	**14.3**	9.3	4.9
Expected return on pension scheme assets	**(24.8)**	(17.8)	(14.9)
Interest on pension scheme liabilities	**28.6**	19.2	16.4
Charge to net interest payable and similar charges	**3.8**	1.4	1.5
Charge to profit on ordinary activities before taxation for defined benefit schemes	**18.1**	10.7	6.4
Loss on pension scheme assets relative to expected return	**46.0**	9.2	0.7
Experience gains and losses arising on the scheme liabilities	**8.4**	10.5	0.4
Changes in assumptions underlying the present value of the scheme liabilities	**(10.9)**	5.6	9.8
Movement in exchange rates	**(0.5)**	1.7	(0.5)
Actuarial loss recognised in STRGL	**43.0**	27.0	10.4

(d) Movement in scheme surplus

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

	2001 £m	2000 £m	1999 £m
Group			
Deficit at 1 January	**87.7**	45.6	35.4
Current service cost	**13.3**	9.3	4.9
Past service costs	**1.8**	–	–
Settlements and curtailments	**(0.8)**	–	–
Acquisitions	**–**	24.8	–
Charge to net interest payable and similar charges	**3.8**	1.4	1.5
Actuarial loss	**43.0**	27.0	10.4
Contributions	**(13.5)**	(20.4)	(6.6)
Deficit at 31 December	**135.3**	87.7	45.6

(e) Prior year adjustment

As a result of the implementation of FRS 17, as described above, the profit and loss account and balance sheet have been restated. The effects of the change in the accounting policy have had no material impact on the profit and loss account, but have increased the pension provision and decreased the net assets of the Group by the amounts of the actuarial losses as described in (c) above.

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 March 2002 Swaps £m	31 December 2001 Swaps £m	31 December 2000 Swaps £m	31 December 1999 Swaps £m
Fair value	**4.0**	4.0	(0.5)	3.7
Book value	**nil**	nil	nil	nil

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 2001 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) – considered to approximate to fair value because of the short maturity of such instruments.

The fair value of our $300 million bonds, €1 billion Eurobonds and $287.5 million convertible debt at 31 December 2001 was £1 billion (book value: £1 billion). This is calculated by reference to market prices at 31 December 2001. 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

	2001 Number m	2001 £m	2000 Number m	2000 £m	1999 Number m	1999 £m
Authorised:						
Equity ordinary shares of 10p each	**1,750**	**175.0**	1,750	175.0	1,250	125.0
Issued:						
Equity ordinary shares of 10p each	**1,149.6**	**115.0**	1,111.9	111.2	774.5	77.5

Movements in each year are shown in note 25.

Share options

As at 31 December 2001, unexercised options over ordinary shares of 19,366,565 and unexercised options over ADRs of 10,540,250 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
93,211	10.770	2003 – 2010
791,039	9.010	2003 – 2010
55,832	8.193	2004 – 2011
123,079	8.110	2004 – 2011
4,009	8.110	2005 – 2011
3,072	8.110	2004 – 2005
7,005	6.280	2004 – 2011
660,042	5.700	2002 – 2009
168,566	5.185	2002 – 2009
3,293,709	4.865	2004 – 2011
66,621	4.865	2004 – 2005
45,583	4.865	2005 – 2011
5,022	3.030	2001 – 2008
43,800	3.270	2001 – 2008
3,804,467	2.930	2001 – 2008
2,751,052	2.835	2000 – 2007
6,037	2.535	2000 – 2007
2,702,547	2.335	1999 – 2006
789,394	2.140	1999 – 2006
2,094,575	1.540	1998 – 2005
1,039,635	1.190	1997 – 2004
9.812	1.150	1997 – 2004
592,220	1.080	1998 – 2005
161,183	1.020	1996 – 2003
55,053	0.560	1997 – 2002

24 Authorised and issued share capital continued

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
884,715	2.300	2000 – 2006
946,787	9.200	2000 – 2006
152,725	9.200	2000 – 2007
2,323,873	14.750	2000 – 2007
33,400	29.950	2000 – 2008
268,205	34.050	2000 – 2008
1,784,266	35.380	2004 – 2011
76,820	35.650	2000 – 2008
1,130,758	44.600	2000 – 2009
471,084	46.475	2002 – 2009
57,466	46.550	2000 – 2009
13,569	48.200	2000 – 2010
91,850	48.800	2000 – 2009
4,175	50.300	2000 – 2010
59,669	51.050	2001 – 2010
577,773	51.050	2002 – 2010
577,773	51.050	2003 – 2010
16,700	51.850	2000 – 2009
35,070	53.450	2000 – 2009
253,005	54.050	2000 – 2009
2,088	54.800	2000 – 2009
8,350	55.300	2000 – 2009
75,150	56.300	2000 – 2009
12,525	57.200	2000 – 2009
64,529	58.238	2004 – 2011
4,621	58.886	2004 – 2011
1,113	59.650	2001 – 2010
1,113	59.650	2002 – 2010
1,113	59.650	2003 – 2010
6,976	60.000	2003 – 2010
696	60.350	2001 – 2010
696	60.350	2002 – 2010
696	60.350	2003 – 2010
6,263	60.500	2000 – 2010
98,725	62.110	2003 – 2010
4,830	62.110	2005 – 2010
378,257	63.263	2003 – 2010
1,113	63.450	2001 – 2010
1,113	63.450	2002 – 2010
1,113	63.450	2003 – 2010
3,479	63.700	2001 – 2010
3,479	63.700	2002 – 2010
3,479	63.700	2003 – 2010
974	63.750	2001 – 2010
974	63.750	2002 – 2010
974	63.750	2003 – 2010
8,350	64.350	2000 – 2010
1,392	64.600	2001 – 2010
1,392	64.600	2002 – 2010
1,392	64.600	2003 – 2010
696	65.100	2001 – 2010
696	65.100	2002 – 2010
696	65.100	2003 – 2010
3,560	66.700	2001 – 2010
3,560	66.700	2002 – 2010
3,560	66.700	2003 – 2010
1,113	67.050	2001 – 2010
1,113	67.050	2002 – 2010
1,113	67.050	2003 – 2010
1,392	68.500	2001 – 2010
1,392	68.500	2002 – 2010
1,392	68.500	2003 – 2010
11,690	71.800	2000 – 2010
529	72.600	2001 – 2010
529	72.600	2002 – 2010
529	72.600	2003 – 2010
38,352	84.485	2003 – 2010
11,690	84.750	2000 – 2010

24 Authorised and issued share capital continued

As at 31 December 2001, unexercised options totalling 4,690,625 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
WPP Worldwide Share Ownership Program		
186,675	2.695	2000 – 2007
542,050	3.030	2001 – 2008
1,154,850	5.315	2002 – 2009
972,650	7.790	2003 – 2010
865,150	7.960	2004 – 2011
927,125	11.296	2004 – 2011
22,625	5.990	2004 – 2011
19,500	5.210	2004 – 2011

The aggregate status of the WPP Share Option Schemes during 2001 was as follows:

Movement on options granted (represented in ordinary shares)

	1 January 2001 number	Granted number	Exercised number	Lapsed number	31 December 2001 number
WPP	30,174,797	15,053,267	(4,777,776)	(2,134,898)	38,315,390
Y&R	67,759,777	–	(25,648,828)	(3,667,899)	38,443,050
	97,934,574	15,053,267	(30,426,604)	(5,802,797)	76,758,440

Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.560–10.770	4.02	79.41

Options outstanding over ADRs

Range of exercise prices $	Weighted average exercise price $	Weighted average contractual life Months
2.30–84.75	31.37	98.59

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

	2001	2000	1999
Fair value of UK options (shares)	**212.0p**	286.1p	134.0p
Fair value of US options (ADRs)	**$13.65**	$16.18	–
Weighted average assumptions:			
UK Risk-free interest rate	**4.73%**	6.02%	5.23%
US Risk-free interest rate	**3.42%**	5.94%	–
Expected life (months)	**36**	36	36
Expected volatility	**50%**	40%	28%
Dividend yield	**0.6%**	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, were as follows:

	2001	2000	1999
Fair value	**236.2p**	299.9p	233.8p
Weighted average assumptions:			
Risk-free interest rate	**5.00%**	5.80%	5.23%
Expected life (months)	**48**	48	60
Expected volatility	**40%**	40%	28%
Dividend yield	**0.6%**	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[1] £m	Total £m
Balance at 1 January 1999	**76.6**	**562.9**	**–**	**120.5**	**(92.0)**	**(452.3)**	**215.7**
FRS 17 (Retirement Benefits) restatement	–	–	–	–	–	(2.6)	(2.6)
Adjusted balance at 1 January 1999	**76.6**	**562.9**	**–**	**120.5**	**(92.0)**	**(454.9)**	**213.1**
1999 movements							
Ordinary shares issued	0.9	40.0	–	0.8	–	(28.8)[2]	12.9
Currency translation movement	–	–	–	–	(31.2)	–	(31.2)
Retained profit for the financial year	–	–	–	–	–	148.8	148.8
Actuarial loss on defined benefit schemes	–	–	–	–	–	(10.4)	(10.4)
Adjusted balance at 31 December 1999	**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)[2]	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)[2]**	**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**

Other reserves at 31 December 2001 comprise: currency translation deficit £338.3 million (2000: £257.5 million, 1999: £124.5 million), capital redemption reserve £1.3 million (2000: £1.3 million, 1999: £1.3 million).

The cumulative amount of goodwill written off against the Group's reserves, net of goodwill relating to undertakings disposed of, is £1,158.4 million (2000: £1,160.4 million, 1999: 1,160.4 million).

[1] Share owners' funds have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements. The impact of this on opening funds of £3,409.9 million as previously reported, is to increase these to £3,369.9 million as restated as at 1 January 2001.

[2] 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.

26 Acquisition of Tempus Group plc

On 6 November 2001 the Company finalised its acquisition of Tempus Group plc.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value at acquisition £m	Accounting policy alignments[1] £m	Fair value adjustments[2] £m	Fair value to Group £m
Tangible fixed assets	15.0	(1.3)	(0.2)	13.5
Investments	10.9	–	(1.8)[i]	9.1
Current assets	342.9	–	(0.3)	342.6
Total assets	**368.8**	**(1.3)**	**(2.3)**	**365.2**
Other creditors due within one year	(397.1)	–	(0.1)	(397.2)
Other creditors due after one year	(54.7)	–	(10.4)[ii]	(65.1)
Provisions	(2.5)	–	(11.8)[iii]	(14.3)
Total liabilities	**(454.3)**	**–**	**(22.3)**	**(476.6)**
Net liabilities	**(85.5)**	**(1.3)**	**(24.6)**	**(111.4)**
Minority interest				(5.0)
Goodwill				516.8
Consideration				400.4
Consideration satisfied by:				
Cash				369.3
Shares to be issued				1.6
Capitalised acquisition costs				5.7
Transferred from investments				23.8
				400.4

Notes

1 Accounting policy alignments
These comprise adjustments to bring the assets and liabilities of Tempus Group plc into compliance with WPP Group plc's accounting practices and policies. These primarily arise from applying the Group's depreciation policies to tangible fixed assets acquired.

2 Fair value adjustments
These comprise adjustments to bring the book value of the assets and liabilities of Tempus Group plc to fair value:
(i) Revaluation of internet and other investments to fair value.
(ii) Recognition of accrual for additional corporate tax liabilities.
(iii) Provision for certain contingent liabilities where the likelihood of settlement is considered probable at the date of acquisition.

Net cash outflows in respect of the acquisition of Tempus Group plc comprised:

	£m
Cash at bank and in hand acquired	52.5
Bank overdrafts acquired	(85.2)
Share issue and acquisition costs	(1.5)
	(34.2)

Tempus Group plc contributed £88.4 million to the Group's net operating cash flows, paid £0.3 million in respect of net returns on investment and servicing of finance, paid £nil million in respect of taxation and utilised £0.4 million for capital expenditure.

26 Acquisition of Tempus Group plc continued
The summarised profit and loss accounts and statements of total recognised gains and losses of Tempus Group plc for the period from 1 January to 5 November 2001 and the year ended 31 December 2000 are summarised below. These amounts are shown on the basis of the accounting policies and reporting formats of Tempus Group plc prior to the acquisition. The post-acquisition contribution of Tempus Group plc was not material to the group's profit and loss account on page 60.

Tempus Group plc Profit and loss account	Period ended 5 November 2001 £m	Year ended 31 December 2000 £m
Turnover	**1,526.4**	**2,068.1**
Cost of sales	(1,392.0)	(1,916.8)
Gross profit	**134.4**	**151.3**
Other operating expenses (net)	(133.5)	(133.0)
Operating profit	**0.9**	**18.3**
Income from associates	0.5	1.0
Interest (expense)/income (net)	(1.3)	0.6
Exceptional items[1]	(17.4)	–
(Loss)/profit on ordinary activities before taxation	**(17.3)**	**19.9**
Tax on profit on ordinary activities	(2.2)	(7.5)
(Loss)/profit on ordinary activities after taxation	**(19.5)**	**12.4**
Minority interests	(2.2)	(2.9)
(Loss)/profit attributable to shareholders	**(21.7)**	**9.5**
Ordinary dividends	–	(3.0)
Retained (loss)/profit for the period	(21.7)	6.5

Statement of recognised gains and losses	**£m**	**£m**
(Loss)/profit for the financial period	(21.7)	9.5
Amounts deducted in respect of shares issued to the Employee Benefit Trust	(0.1)	(0.7)
Loss on foreign currency translation	(1.0)	(0.1)
Total recognised gains and losses relating to the period	**(22.8)**	**8.7**

[1] Exceptional items comprise merger costs, redundancy and other costs incidental to a restructuring of operations and investment write offs.

Other acquisitions
The Group undertook a number of other acquisitions in the year. Goodwill arising on these acquisitions was calculated as follows:

	Book value £m	Fair value adjustments £m	Fair value £m	Cost of acquisition £m	Goodwill £m
Other acquisitions	8.4	(24.0)	(15.6)	434.2	449.8

Goodwill above of £449.8 million includes £411.0 million in respect of the acquisition of subsidiary undertakings and £38.8 million in respect of associate undertakings. The cost of acquisition above includes cash paid of £209.6 million. In addition £61.5 million of additional shares were issued in respect of the acquisition of Young and Rubicam Inc.

Fair value adjustments of £24.0 million arising on these acquisitions include £6.9 million of additional tax liabilities and £17.1 million of other liabilities.

27 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.

Company balance sheet
As at 31 December 2001

	Notes	**2001 £m**	2000 £m	1999 £m
Fixed assets				
Tangible assets	28	**15.4**	13.4	10.3
Investments	29	**7,116.7**	6,042.2	1,808.6
		7,132.1	6,055.6	1,818.9
Current assets				
Debtors (including amounts falling due after more than one year)	30	**879.8**	148.0	88.7
Cash at bank and in hand		**4.3**	49.2	2.4
		884.1	197.2	91.1
Creditors: amounts falling due within one year	31	**(2,179.9)**	(997.3)	(370.8)
Net current liabilities		**(1,295.8)**	(800.1)	(279.7)
Total assets less current liabilities		**5,836.3**	5,255.5	1,539.2
Creditors: amounts falling due after more than one year	32	**(670.2)**	(192.9)	(441.2)
Net assets		**5,166.1**	5,062.6	1,098.0
Capital and reserves				
Called up share capital	33	**115.0**	111.2	77.5
Share premium account	33	**805.2**	709.0	602.9
Shares to be issued	33	**238.6**	386.7	–
Merger reserve	33	**2,860.7**	2,665.2	121.3
Other reserves	33	**91.5**	91.5	91.5
Profit and loss account	33	**1,055.1**	1,099.0	204.8
Total equity capital employed		**5,166.1**	5,062.6	1,098.0

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

Signed on behalf of the Board on 9 May 2002:
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 £7.7 million (2000: £932.1 million, 1999: £27.6 million) in respect of the Company. This includes dividend income received from subsidiaries of £0.1 million (2000: £923.0 million, 1999: £39.3 million).

Notes to the Company balance sheet

28 Tangible fixed assets
The movements in 2001 and 2000 were as follows:

Costs:	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 2000	1.6	0.8	12.6	15.0
Additions	0.5	0.1	5.2	5.8
Disposals	(0.8)	(0.4)	(2.8)	(4.0)
31 December 2000	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**
Depreciation:				
1 January 2000	1.0	0.6	3.1	4.7
Charge	0.2	0.1	1.8	2.1
Disposals	(0.8)	(0.4)	(2.2)	(3.4)
31 December 2000	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**
Net book value:				
31 December 2001	**1.2**	**0.2**	**14.0**	**15.4**
31 December 2000	0.9	0.2	12.3	13.4
1 January 2000	0.6	0.2	9.5	10.3

29 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 2000	1,737.3	71.3	1,808.6
Additions	5,581.0	94.1	5,675.1
Disposals	(1,436.3)	(5.2)	(1,441.5)
31 December 2000	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**

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

30 Debtors
The following are included in debtors:

	2001 £m	2000 £m	1999 £m
Amounts owed by subsidiary undertakings	**826.7**	112.2	49.7
Taxation and social security	**6.8**	–	–
Other debtors	**46.3**	35.8	39.0
	879.8	148.0	88.7

Included within amounts owed by subsidiary undertakings are loans totalling £nil (2000: £nil, 1999: £nil) which fall due for repayment after more than one year.

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

	2001 £m	2000 £m	1999 £m
Bank loans and overdrafts	**85.7**	10.9	25.5
Amounts due to subsidiary undertakings	**1,968.5**	912.2	313.8
Taxation and social security	**–**	0.8	10.6
Dividends proposed	**35.2**	28.5	16.2
Other creditors and accruals	**90.5**	44.9	4.7
	2,179.9	997.3	370.8

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

	2001 £m	2000 £m	1999 £m
Bank loans	**609.0**	–	180.3
Amounts due to subsidiary undertakings	**49.4**	182.7	252.0
Other creditors and accruals	**11.8**	10.2	8.9
	670.2	192.9	441.2

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

	2001 £m	2000 £m	1999 £m
Within two to five years	**213.3**	–	180.3
Over five years	**395.7**	–	–

During the year the Company issued €350 million of 5.125% bonds due 2004 and €650 million of 6.875% bonds due 2008.

In March 2002, the Company announced the issue of £450 million 2% convertible bonds due April 2007.

33 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	111.2	709.0	386.7	2,665.2	91.5	1,099.0
Ordinary shares issued in respect of acquisitions	0.7	–	1.6	62.4	–	–
Other ordinary shares issued	3.1	96.2	(149.7)	133.1	–	–
Retained loss for the financial year	–	–	–	–	–	(43.9)
	115.0	**805.2**	**238.6**	**2,860.7**	**91.5**	**1,055.1**

Other reserves at 31 December 2001 comprise: currency translation deficit £37.2 million (2000: £37.2 million, 1999: £37.2 million), capital redemption reserve £1.3 million (2000: £1.3 million, 1999: £1.3 million) and capital reserve £127.4 million (2000: £127.4 million, 1999: £127.4 million).

At 31 December 2001 the Company's distributable reserves amounted to £153.4 million. Further details of the Company's movements in share capital are shown in notes 24 and 25.

Reconciliation to US Accounting Principles (unaudited)

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

	Notes	2001 £m	2000 £m	1999 £m
		For the year ended 31 December		
Net income				
Profit attributable to ordinary share owners under UK GAAP		**271.2**	244.7	172.8
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	1	**(142.2)**	(83.2)	(42.1)
Executive compensation	1	**(26.9)**	(38.3)	(58.4)
Contingent consideration deemed as compensation	1	**(23.1)**	(8.6)	–
Accounting for derivatives	3	**4.0**	–	–
Deferred tax items	1	**(3.8)**	8.3	9.6
		(192.0)	(121.8)	(90.9)
Net income as adjusted for US GAAP		**79.2**	122.9	81.9
Statement of comprehensive income				
Net income as adjusted for US GAAP		**79.2**	122.9	81.9
Revaluation of investments marked to market		**(39.7)**	(6.8)	41.2
Foreign currency translation		**(80.6)**	(133.0)	(31.2)
Additional minimum pension liability		**(73.7)**	–	–
Comprehensive (loss)/income		**(114.8)**	(16.9)	91.9
Earnings per share				
Basic earnings per share as adjusted for US GAAP (p)	2	**7.2**	14.7	10.9
Diluted earnings per share as adjusted for US GAAP (p)	2	**7.1**	14.1	10.6

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:

	2001	2000	1999
Net income as adjusted for US GAAP:			
As reported (£m)	**79.2**	122.9	81.9
Pro forma (£m)	**66.9**	116.0	77.7
Basic earnings per share per US GAAP:			
As reported (p)	**7.2**	14.7	10.9
Pro forma (p)	**6.4**	13.9	10.3

Further details regarding stock option plans and the fair valuation of option grants can be found in note 24.

	Notes	2001 £m	2000* £m	1999* £m
		As at 31 December		
Share owners' funds				
Share owners' funds under UK GAAP		**3,599.8**	3,369.9	333.2
US GAAP adjustments, net of taxes:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	**773.4**	834.5	685.2
Revaluation of investments marked to market		**(5.3)**	34.4	41.2
Contingent consideration deemed as compensation	1	**(31.7)**	(8.6)	–
Shares owned by Employee Share Option Plan (ESOP)	1	**(250.4)**	(160.2)	(71.3)
Accounting for derivatives	3	**4.0**	–	–
Pension accounting		**9.3**	40.0	13.0
Deferred tax items	1	**10.5**	14.3	6.0
Proposed final ordinary dividend, not yet declared	1	**35.2**	28.5	16.2
Other		**(3.4)**	(3.7)	(3.9)
		541.6	779.2	686.4
Share owners' funds as adjusted for US GAAP	2	**4,141.4**	4,149.1	1,019.6

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £5,789.6 million (2000: £4,776.8 million, 1999: £1,582.6 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.

Movement in share owners' funds under US GAAP

	2001 £m	2000 £m	1999 £m
Net income for the year under US GAAP	**79.2**	122.9	81.9
Prior year final dividend	**(28.5)**	(16.2)	(13.4)
Current year interim dividend	**(16.4)**	(9.3)	(7.8)
Retained earnings for the year	**34.3**	97.4	60.7
Ordinary shares issued in respect of acquisitions	**64.7**	3,225.3	0.8
Share issue costs charged to merger reserve	**(1.0)**	(35.0)	–
Share options exercised	**68.2**	64.0	12.1
Shares owned by Employee Share Option Plan	**(90.2)**	(88.9)	(13.2)
Revaluation of investments marked to market	**(39.7)**	(6.8)	41.2
Exchange adjustments:			
– Revaluation of goodwill	**81.4**	(31.8)	(34.9)
– Foreign currency translation	**(80.6)**	(133.0)	(31.2)
Pension accounting	**(73.7)**	–	–
Goodwill write-back	**2.0**	–	–
Executive compensation	**26.9**	38.3	58.4
New additions to share owners' funds	**(7.7)**	3,129.5	93.9
Share owners' funds at 1 January	**4,149.1**	1,019.6	925.7
Share owners' funds at 31 December	**4,141.4**	4,149.1	1,019.6

*The 2000 and 1999 balance sheets have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements for UK GAAP.

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:

Goodwill. US purchase accounting and long-lived assets
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. 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 infinite 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' 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 a period not to exceed 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 contingency is resolved. At 31 December 2001, the Group's liabilities for vendor payments under UK GAAP totalled £288.2 million (2000: £302.3 million, 1999: £172.4 million). As these liabilities are represented by goodwill arising on acquisition, 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, regardless of the substance of the transaction, 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.

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

1 Significant differences between UK and US Accounting Principles continued

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 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 and are amortised as part of goodwill over 40 years.

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.

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
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 on a systematic basis over the vesting.

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.

The Group's ESOPs comprise 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 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. 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.

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. 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.

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. In 2001, net income has been further adjusted to exclude £3.6 million of after-tax interest expense on the £287.5 million of 3% Convertible Notes. 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.
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
Year ended 31 December 1999		
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

3 Accounting for Derivative Instruments and Hedging Activities
The Group adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards in the US 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. The derivative financial instruments held by the Group are not designated and do not qualify as accounting hedges resulting in the changes in the fair value of the derivative financial instruments being recognised in earnings.

4 New US GAAP Accounting Pronouncements
In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS No. 141, Business Combinations (SFAS 141) and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142).

SFAS 141, which supersedes Accounting Principles Board ('APB') Opinion No. 16, Business Combinations, requires the purchase method of accounting for all business combinations initiated after 30 June 2001 and addresses the initial recognition and measurement of goodwill and intangible assets in business combinations accounted for using the purchase method that are completed after 30 June 2001.

SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets. SFAS 142 supersedes APB Opinion No. 17, Intangible Assets. Under the provisions of SFAS 142, companies will no longer be required to amortise goodwill and other intangibles that have indefinite lives. Instead, these assets will be subject to testing at least annually for impairment. Other intangible assets will continue to be amortised over their useful lives in accordance with the new standard. Additionally, goodwill on equity method investments will no longer be amortised; however, it will continue to be tested for impairment in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. SFAS 142 is effective for fiscal years beginning after 15 December 2001 although goodwill on business combinations consummated after 1 July 2001 will not be amortised. On adoption the Company may need to record a cumulative effect adjustment to reflect the impairment of previously recognised intangible assets. The Company has not determined the impact that these Statements will have on intangible assets or whether a cumulative effect adjustment will be required upon adoption.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 establishes a single accounting model for the impairment of long-lived assets, including discontinued operations. SFAS 144 supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lives Assets and for Long-Lived Assets to be Disposed of, and APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 is effective for fiscal years beginning after 15 December 2001. The adoption of this statement is not expected to have a material impact on the Group's results of operations and financial position.

Five-year summary

	2001 £m	2000 Restated[2] £m	1999 Restated[2] £m	1998 £m	1997 £m
Profit and loss					
Turnover (gross billings)	**20,886.9**	13,949.4	9,345.9	8,000.1	7,287.3
Revenue	**4,021.7**	2,980.7	2,172.6	1,918.4	1,746.7
Operating profit	**505.5**	379.4	265.0	229.1	194.9
Profit on ordinary activities before taxation	**411.0**	365.7	255.4	212.8	177.4
Profit attributable to ordinary share owners	**271.2**	244.7	172.8	140.3	116.0
Balance sheet					
Fixed assets	**6,376.2**	5,389.0	1,313.9	942.9	564.0
Net current liabilities	**(782.4)**	(529.4)	(227.5)	(239.7)	(258.3)
Creditors: amounts falling due after more than one year	**(1,711.5)**	(1,279.6)	(652.5)	(401.5)	(221.5)
Provisions for liabilities and charges (including pension provision)	**(241.4)**	(185.9)	(92.2)	(77.9)	(74.5)
Net assets	**3,640.9**	3,394.1	341.7	223.8	9.7
Net (debt)/funds	**(885.1)**	(24.6)	91.9	134.3	194.7
Average net debt	**(834.0)**	(423.0)	(206.0)	(143.0)	(115.0)

	2001	2000	1999	1998	1997
Our people					
Revenue per employee (£000)	**79.7**	82.4	78.4	75.0	76.2
Gross profit per employee (£000)	**75.1**	75.7	67.0	63.8	64.1
Operating profit per employee (£000)	**10.0**	10.5	9.6	9.0	8.5
Average headcount	**50,487**	36,157	27,711	25,589	22,909
Share information					
Headline[3] – basic earnings per ordinary share	**31.8p**	31.1p	22.9p	19.1p	15.8p
– diluted earnings per ordinary share	**30.6p**	30.1p	22.5p	18.8p	15.7p
Standard – basic earnings per ordinary share	**24.6p**	29.3p	22.9p	19.1p	15.8p
– diluted earnings per ordinary share	**23.7p**	28.4p	22.5p	18.8p	15.7p
Dividends per share	**4.50p**	3.75p	3.10p	2.56p	2.13p
Dividend cover[1]	**6.8**	8.0	7.3	7.3	7.4
Share price – high	**889p**	1,324p	996p	470p	292p
– low	**460p**	693p	359p	200p	237p
Market capitalisation at year-end (£m)	**8,736.8**	9,631.2	7,598.3	2,803.8	1,984.4

Notes

1 Diluted headline earnings per share (net basis) divided by dividends per share.

2 The 1999-2000 balance sheets and profit and loss accounts have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements. 1997 and 1998 have not been restated.

3 Headline earnings per ordinary share excludes goodwill charges, investment gains and write-downs.

Consolidated profit and loss account: euro illustration
For the year ended 31 December 2001

	2001 €m	2000 Restated[2] €m	1999 Restated[2] €m
Turnover (gross billings)	**33,598.7**	22.916.1	14,207.6
Cost of sales	**(27,129.4)**	(18,019.4)	(10,904.8)
Revenue	**6,469.3**	4,896.7	3,302.8
Direct costs	**(373.2)**	(401.8)	(482.4)
Gross profit	**6,096.1**	4,494.9	2,820.4
Operating costs excluding goodwill and exceptional items	**(5,259.2)**	(3,846.8)	(2,417.6)
Goodwill amortisation and impairment	**(23.8)**	(24.8)	–
Operating profit	**813.1**	623.3	402.8
Income from associates	**65.6**	62.4	41.5
Profit on ordinary activities before interest, taxation, investment gains and write-downs	**878.7**	685.7	444.3
Net gain on disposal of investments	**10.9**	–	–
Amounts written off fixed asset investments	**(113.9)**	–	–
Net interest payable and similar charges	**(114.7)**	(84.9)	(56.0)
Profit on ordinary activities before taxation	**661.0**	600.8	388.3
Tax on profit on ordinary activities	**(202.8)**	(180.2)	(116.5)
Profit on ordinary activities after taxation	**458.2**	420.6	271.8
Minority interests	**(22.0)**	(18.6)	(9.1)
Profit attributable to ordinary share owners	**436.2**	402.0	262.7
Ordinary dividends	**(83.0)**	(62.1)	(36.5)
Retained profit for the year	**353.2**	339.9	226.2
PBIT[1]	**902.5**	710.5	444.3
PBIT[1] margin	**14.0%**	14.5%	13.5%
PBT[1]	**787.8**	625.6	388.3
Headline earnings per share[3]			
Basic earnings per ordinary share	**51.2¢**	51.1¢	34.8¢
Diluted earnings per ordinary share	**49.2¢**	49.4¢	34.2¢
Standard earnings per share			
Basic earnings per ordinary share	**39.6¢**	48.1¢	34.8¢
Diluted earnings per ordinary share	**38.1¢**	46.7¢	34.2¢

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 (2001: €1.6086 = £1, 2000: €1.6428 = £1, 1999: €1.5202 = £1) and the rate in effect on 31 December for the balance sheet (2001: : €1.6322 = £1, 2000: €1.5912 = £1, 1999: €1.6056 = £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.

1 PBIT: Profit on ordinary activities before interest and taxation, excluding goodwill charges, investment gains and write-downs.
PBT: Profit on ordinary activities before taxation, excluding goodwill charges, investment gains and write-downs.
2 The 2000-1999 profit and loss accounts have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements.
3 Headline earnings per ordinary share and ADR excludes goodwill charges, investment gains and write-downs.

Consolidated balance sheet: euro illustration
As at 31 December 2001

	2001 €m	2000 Restated[1] €m	1999 Restated[1] €m
Fixed assets			
Intangible assets:			
Corporate brands	**1,550.6**	1,511.6	561.9
Goodwill	**7,246.8**	5,565.0	658.8
Tangible assets	**706.4**	620.9	315.8
Investments	**903.4**	877.5	573.0
	10,407.2	8,575.0	2,109.5
Current assets			
Stocks and work in progress	**386.7**	383.6	182.2
Debtors	**3,903.9**	3,470.4	1,715.4
Debtors within working capital facility:			
Gross debts	**540.3**	739.7	555.1
Non-returnable proceeds	**(134.7)**	(368.5)	(343.8)
	405.6	371.2	211.3
Current asset investment	**125.4**	–	–
Cash at bank and in hand	**955.8**	1,698.8	974.6
	5,777.4	5,924.0	3,083.5
Creditors: amounts falling due within one year	**(7,054.4)**	(6,766.4)	(3,448.8)
Net current liabilities	**(1,277.0)**	(842.4)	(365.3)
Total assets less current liabilities	**9,130.2**	7,732.6	1,744.2
Creditors: amounts falling due after more than one year	**(2,793.5)**	(2,036.1)	(1,047.7)
Provisions for liabilities and charges	**(173.2)**	(156.2)	(74.8)
Net assets excluding pension provision	**6,163.5**	5,540.3	621.7
Pension provision	**(220.8)**	(139.6)	(73.2)
Net assets including pension provision	**5,942.7**	5,400.7	548.5
Capital and reserves			
Called up share capital	**187.7**	176.9	124.4
Share premium account	**1,314.2**	1,128.2	968.0
Shares to be issued	**389.4**	615.3	–
Merger reserve	**4,610.5**	4,185.2	194.7
Other reserves	**(549.6)**	(407.7)	(197.8)
Profit and loss account	**(76.6)**	(335.7)	(554.4)
Equity share owners' funds	**5,875.6**	5,362.2	534.9
Minority interests	**67.1**	38.5	13.6
Total capital employed	**5,942.7**	5,400.7	548.5

1 The 2000 and 1999 balance sheets have been restated as a result of the implementation of FRS 17 (Retirement Benefits) in the Group's 2001 financial statements.

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)
PBIT	Profit on ordinary activities before interest and taxation, excluding goodwill charges, investment gains and write-downs
PBT	Profit on ordinary activities before taxation, excluding goodwill charges, investment gains and write-downs
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

Independent auditors' report to the share owners of WPP Group plc

We have audited the financial statements of WPP Group plc for the year ended 31 December 2001 which comprise the consolidated profit and loss account, the consolidated balance sheet, consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the Company balance sheet and the related notes numbered 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statements reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the information as laid out in the table of contents. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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. 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 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 financial statements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 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
180 Strand
London
WC2R 1BL
9 May 2002