



# The numbers in full



# Accounting policies

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

## 1 Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

## 2 Basis of consolidation

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

## 3 Goodwill and intangible fixed assets

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

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

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.

The directors have reassessed their opinion that all the goodwill and intangible assets of the Group have an infinite life. For certain acquisitions, where the directors consider it more appropriate, goodwill is now 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 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:

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

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## 5 Investments

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

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account and the investments are shown in the Group balance sheet 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 Taxation

Corporate taxes are payable on taxable profits at current rates.

## 9 Incentive plans

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

## 10 Pension costs

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

## 11 Operating leases

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

## 12 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. Compensation 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.

## 13 Translation of foreign currencies

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise. The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net investments in these companies are translated at year-end exchange rates. Exchange differences arising from retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

## 14 Changes in accounting policies

The Group adopted FRS 19 (Deferred Tax) during the year. Deferred tax 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 tax in the future or a right to pay less tax 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 tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax 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.

The Group also adopted FRS 15 (Tangible Fixed Assets) and FRS 16 (Current Tax) during the year. There has been no material impact on the financial statements as a result of the adoption of these new standards.

# Consolidated profit and loss account (UK sterling)

## For the year ended 31 December 2000

	Notes	2000		Total £m	1999 £m	1998 £m
		Continuing Operations* £m	Acquisitions (Young & Rubicam only) £m			
<b>Turnover (gross billings)</b>	1	<b>12,212.7</b>	<b>1,736.7</b>	<b>13,949.4</b>	9,345.9	8,000.1
Cost of sales		<b>(9,591.4)</b>	<b>(1,377.3)</b>	<b>(10,968.7)</b>	(7,173.3)	(6,081.7)
<b>Revenue</b>	1	<b>2,621.3</b>	<b>359.4</b>	<b>2,980.7</b>	2,172.6	1,918.4
Direct costs		<b>(244.6)</b>	–	<b>(244.6)</b>	(317.3)	(285.9)
<b>Gross profit</b>		<b>2,376.7</b>	<b>359.4</b>	<b>2,736.1</b>	1,855.3	1,632.5
Operating costs	2	<b>(2,046.3)</b>	<b>(311.8)</b>	<b>(2,358.1)</b>	(1,591.8)	(1,403.4)
<b>Operating profit</b>		<b>330.4</b>	<b>47.6</b>	<b>378.0</b>	263.5	229.1
Income from associates		<b>35.4</b>	<b>2.6</b>	<b>38.0</b>	27.3	16.1
<b>Profit on ordinary activities before interest and taxation</b>	1	<b>365.8</b>	<b>50.2</b>	<b>416.0</b>	290.8	245.2
Net interest payable and similar charges	4	<b>(47.8)</b>	<b>(2.5)</b>	<b>(50.3)</b>	(35.4)	(32.4)
<b>Profit on ordinary activities before taxation</b>		<b>318.0</b>	<b>47.7</b>	<b>365.7</b>	255.4	212.8
Taxation on profit on ordinary activities	5			<b>(109.7)</b>	(76.6)	(67.0)
<b>Profit on ordinary activities after taxation</b>				<b>256.0</b>	178.8	145.8
Minority interests				<b>(11.3)</b>	(6.0)	(5.5)
<b>Profit attributable to ordinary share owners</b>				<b>244.7</b>	172.8	140.3
Ordinary dividends	6			<b>(37.8)</b>	(24.0)	(19.6)
<b>Retained profit for the year</b>				<b>206.9</b>	148.8	120.7
<b>Earnings per share</b>						
	7					
Basic earnings per ordinary share				<b>29.3p</b>	22.9p	19.1p
Diluted earnings per ordinary share				<b>28.4p</b>	22.5p	18.8p
<b>Ordinary dividend per share</b>						
	6					
Interim dividend				<b>1.2p</b>	1.0p	0.84p
Final dividend				<b>2.55p</b>	2.1p	1.72p
<b>Earnings per ADR</b>						
Basic earnings per ADR				<b>146.5p</b>	114.5p	95.5p
Diluted earnings per ADR				<b>142.0p</b>	112.5p	94.0p
<b>Ordinary dividend per ADR (net)</b>						
Interim				<b>6.0p</b>	5.0p	4.2p
Final				<b>12.8p</b>	10.5p	8.6p

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

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 58 and 61 are also expressed in US dollars on pages 59 and 61 using the approximate average rate for the year for the profit and loss account (2000: \$1.5162 = £1, 1999: \$1.6178 = £1, 1998: \$1.6574 = £1) and the rate in effect on 31 December for the balance sheet (2000: \$1.4937 = £1, 1999: \$1.6182 = £1, 1998: \$1.6638 = £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 24.

The 1998 figures in the profit and loss account have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR in 1999.

\* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of £438.9 million, operating profit of £61.5 million and PBIT of £66.4 million.

# Consolidated profit and loss account (US dollars)

## For the year ended 31 December 2000

	Notes	2000		Total \$m	1999 \$m	1998 \$m
		Continuing Operations* \$m	Acquisitions (Young & Rubicam only) \$m			
<b>Turnover (gross billings)</b>	1	<b>18,516.9</b>	<b>2,633.2</b>	<b>21,150.1</b>	15,119.8	13,259.4
Cost of sales		<b>(14,542.5)</b>	<b>(2,088.3)</b>	<b>(16,630.8)</b>	(11,605.0)	(10,079.8)
<b>Revenue</b>	1	<b>3,974.4</b>	<b>544.9</b>	<b>4,519.3</b>	3,514.8	3,179.6
Direct costs		<b>(370.8)</b>	–	<b>(370.8)</b>	(513.3)	(473.9)
<b>Gross profit</b>		<b>3,603.6</b>	<b>544.9</b>	<b>4,148.5</b>	3,001.5	2,705.7
Operating costs	2	<b>(3,102.6)</b>	<b>(472.8)</b>	<b>(3,575.4)</b>	(2,575.2)	(2,326.0)
<b>Operating profit</b>		<b>501.0</b>	<b>72.1</b>	<b>573.1</b>	426.3	379.7
Income from associates		<b>53.7</b>	<b>3.9</b>	<b>57.6</b>	44.2	26.7
<b>Profit on ordinary activities before interest and taxation</b>	1	<b>554.7</b>	<b>76.0</b>	<b>630.7</b>	470.5	406.4
Net interest payable and similar charges	4	<b>(72.4)</b>	<b>(3.8)</b>	<b>(76.2)</b>	(57.3)	(53.7)
<b>Profit on ordinary activities before taxation</b>		<b>482.3</b>	<b>72.2</b>	<b>554.5</b>	413.2	352.7
Taxation on profit on ordinary activities	5			<b>(166.3)</b>	(123.9)	(111.0)
<b>Profit on ordinary activities after taxation</b>				<b>388.2</b>	289.3	241.7
Minority interests				<b>(17.1)</b>	(9.7)	(9.1)
<b>Profit attributable to ordinary share owners</b>				<b>371.1</b>	279.6	232.6
Ordinary dividends	6			<b>(57.3)</b>	(38.8)	(32.5)
<b>Retained profit for the year</b>				<b>313.8</b>	240.8	200.1
<b>Earnings per share</b>						
	7					
Basic earnings per ordinary share				<b>44.4¢</b>	37.0¢	31.7¢
Diluted earnings per ordinary share				<b>43.1¢</b>	36.4¢	31.2¢
<b>Ordinary dividend per share</b>						
	6					
Interim dividend				<b>1.82¢</b>	1.62¢	1.39¢
Final dividend				<b>3.87¢</b>	3.40¢	2.85¢
<b>Earnings per ADR</b>						
Basic earnings per ADR				<b>\$2.22</b>	\$1.85	\$1.58
Diluted earnings per ADR				<b>\$2.15</b>	\$1.82	\$1.56
<b>Ordinary dividend per ADR (net)</b>						
Interim				<b>9.4¢</b>	8.1¢	7.0¢
Final				<b>19.3¢</b>	17.0¢	14.3¢

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

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 58 and 61 are also expressed in US dollars on pages 59 and 61 using the approximate average rate for the year for the profit and loss account (2000: \$1.5162 = £1, 1999: \$1.6178 = £1, 1998: \$1.6574 = £1) and the rate in effect on 31 December for the balance sheet (2000: \$1.4937 = £1, 1999: \$1.6182 = £1, 1998: \$1.6638 = £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 24.

The 1998 figures in the profit and loss account have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR in 1999.

\* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of \$665.5 million, operating profit of \$93.2 million and PBIT of \$100.7 million.

# Consolidated cash flow statement

## For the year ended 31 December 2000

	Notes	2000 £m	1999 £m	1998 £m
<b>Net cash inflow from operating activities</b>	9	<b>623.0</b>	348.5	256.0
Dividends received from associates		<b>7.6</b>	4.3	3.4
Return on investments and servicing of finance	10	<b>(64.6)</b>	(37.1)	(28.7)
United Kingdom and overseas tax paid		<b>(81.4)</b>	(58.4)	(59.0)
Capital expenditure and financial investment	10	<b>(199.1)</b>	(80.5)	(82.1)
Acquisition payments	10	<b>(281.0)</b>	(202.2)	(115.5)
Equity dividends paid		<b>(25.6)</b>	(21.1)	(16.6)
<b>Net cash outflow before financing</b>		<b>(21.1)</b>	(46.5)	(42.5)
Net cash inflow from financing	10	<b>204.6</b>	270.0	78.1
Increase in cash and overdrafts for the year		<b>183.5</b>	223.5	35.6
Translation difference		<b>35.1</b>	(0.6)	0.9
Balance of cash and overdrafts at beginning of year		<b>551.4</b>	328.5	292.0
<b>Balance of cash and overdrafts at end of year</b>		<b>770.0</b>	551.4	328.5
<b>Reconciliation of net cash flow to movement in net funds:</b>				
<b>Increase in cash and overdrafts for the year</b>		<b>183.5</b>	223.5	35.6
Cash inflow from increase in debt financing		<b>(126.6)</b>	(258.0)	(95.2)
Debt acquired		<b>(194.9)</b>	–	–
Other movements		<b>(1.9)</b>	(1.7)	(0.9)
Translation difference		<b>23.4</b>	(6.2)	0.1
<b>Movement in net (debt)/funds in the year</b>		<b>(116.5)</b>	(42.4)	(60.4)
<b>Net funds at beginning of year</b>	8	<b>91.9</b>	134.3	194.7
<b>Net (debt)/funds at end of year</b>	8	<b>(24.6)</b>	91.9	134.3

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 2000

	Notes	2000 £m	1999 £m	1998 £m
Profit for the financial year		<b>244.7</b>	172.8	140.3
Exchange adjustments on foreign currency net investments	24	<b>(133.0)</b>	(31.2)	4.0
<b>Total recognised gains and losses relating to the year</b>		<b>111.7</b>	141.6	144.3
Prior year adjustment on implementation of FRS 19 (Deferred tax)		<b>28.0</b>		
<b>Total gains and losses recognised since last annual report</b>		<b>139.7</b>		

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



# Consolidated balance sheet

## As at 31 December 2000

	Notes	2000 £m	1999 Restated* £m	1998 Restated* £m	2000 \$m	1999 Restated* \$m	1998 Restated* \$m
<b>Fixed assets</b>							
Intangible assets							
Corporate brands	13	950.0	350.0	350.0	1,419.0	566.4	582.3
Goodwill	13	3,497.3	410.3	158.0	5,223.9	663.9	262.9
Tangible assets	14	390.2	196.7	166.7	582.8	318.3	277.4
Investments	15	551.5	356.9	268.2	823.8	577.6	446.2
		<b>5,389.0</b>	1,313.9	942.9	<b>8,049.5</b>	2,126.2	1,568.8
<b>Current assets</b>							
Stocks and work in progress	16	241.1	113.5	107.3	360.1	183.7	178.5
Debtors	17	2,181.0	1,068.4	921.1	3,257.8	1,728.9	1,532.5
Debtors within working capital facility:	18						
Gross debts		464.9	345.7	294.5	694.4	559.4	490.0
Non-returnable proceeds		(231.6)	(214.1)	(209.2)	(345.9)	(346.4)	(348.1)
		<b>233.3</b>	131.6	85.3	<b>348.5</b>	213.0	141.9
Cash at bank and in hand		1,067.6	607.0	423.9	1,594.7	982.1	705.3
		<b>3,723.0</b>	1,920.5	1,537.6	<b>5,561.1</b>	3,107.7	2,558.2
<b>Creditors: amounts falling due within one year</b>	19	<b>(4,252.4)</b>	(2,148.0)	(1,777.3)	<b>(6,351.8)</b>	(3,475.9)	(2,957.1)
<b>Net current liabilities</b>		<b>(529.4)</b>	(227.5)	(239.7)	<b>(790.7)</b>	(368.2)	(398.9)
<b>Total assets less current liabilities</b>		<b>4,859.6</b>	1,086.4	703.2	<b>7,258.8</b>	1,758.0	1,169.9
<b>Creditors: amounts falling due after more than one year (including convertible loan note)</b>	20	<b>(1,279.6)</b>	(652.5)	(401.5)	<b>(1,911.3)</b>	(1,055.8)	(668.0)
<b>Provisions for liabilities and charges</b>	21	<b>(145.9)</b>	(79.2)	(77.9)	<b>(217.9)</b>	(128.2)	(129.6)
<b>Net assets</b>		<b>3,434.1</b>	354.7	223.8	<b>5,129.6</b>	574.0	372.3
<b>Capital and reserves</b>							
Called up share capital	23,24	111.2	77.5	76.6	166.1	125.4	127.4
Share premium account	24	709.0	602.9	562.9	1,059.0	975.6	936.5
Shares to be issued	24	386.7	–	–	577.6	–	–
Merger reserve	24	2,630.2	121.3	120.5	3,928.7	196.3	200.5
Other reserves	24	(256.2)	(123.2)	(92.0)	(382.6)	(199.4)	(153.1)
Profit and loss account	24	(171.0)	(332.3)	(452.3)	(255.4)	(537.7)	(752.5)
<b>Equity share owners' funds</b>		<b>3,409.9</b>	346.2	215.7	<b>5,093.4</b>	560.2	358.8
Minority interests		24.2	8.5	8.1	36.2	13.8	13.5
<b>Total capital employed</b>		<b>3,434.1</b>	354.7	223.8	<b>5,129.6</b>	574.0	372.3

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

\* The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.

Signed on behalf of the Board on 4 May 2001:

**Sir Martin Sorrell**

Group chief executive

**P W G Richardson**

Group finance director



# Notes to the consolidated profit and loss account

## 1 Segment information

The Group is the leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services. These services include advertising and media investment management, information and consultancy, public relations and public affairs, and branding & identity, healthcare and specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the United Kingdom and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions.

Contributions by geographical area were as follows:

	Continuing operations* £m	Acquisitions (Young & Rubicam only) £m	Total 2000 £m	Change %	1999 £m	Change %	1998 £m
<b>Turnover</b>							
United Kingdom	1,235.7	100.6	<b>1,336.3</b>	17.9	1,133.7	25.7	902.1
United States	5,158.9	864.9	<b>6,023.8</b>	49.8	4,021.3	13.8	3,534.9
Continental Europe	2,907.1	437.2	<b>3,344.3</b>	50.0	2,230.2	21.1	1,841.2
Canada, Asia Pacific, Latin America, Africa & Middle East	2,911.0	334.0	<b>3,245.0</b>	65.5	1,960.7	13.9	1,721.9
	12,212.7	1,736.7	<b>13,949.4</b>	49.3	9,345.9	16.8	8,000.1
<b>Revenue</b>							
United Kingdom	503.4	29.0	<b>532.4</b>	22.5	434.7	10.5	393.5
United States	1,096.8	176.8	<b>1,273.6</b>	39.2	915.2	19.7	764.4
Continental Europe	499.1	87.2	<b>586.3</b>	37.6	426.2	7.6	396.0
Canada, Asia Pacific, Latin America, Africa & Middle East	522.0	66.4	<b>588.4</b>	48.4	396.5	8.8	364.5
	2,621.3	359.4	<b>2,980.7</b>	37.2	2,172.6	13.3	1,918.4
<b>PBIT<sup>1</sup></b>							
United Kingdom	61.5	1.5	<b>63.0</b>	22.3	51.5	22.0	42.2
United States	171.1	20.5	<b>191.6</b>	37.8	139.0	24.6	111.6
Continental Europe	67.8	14.1	<b>81.9</b>	46.8	55.8	1.5	55.0
Canada, Asia Pacific, Latin America, Africa & Middle East	65.4	14.1	<b>79.5</b>	78.7	44.5	22.3	36.4
	365.8	50.2	<b>416.0</b>	43.1	290.8	18.6	245.2

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	Continuing operations* £m	Acquisitions (Young & Rubicam only) £m	Total 2000 £m	Change %	1999 £m	Change %	1998 £m
<b>Turnover</b>							
Advertising and media investment management	10,100.9	1,354.7	<b>11,455.6</b>	49.0	7,690.1	16.8	6,582.5
Information & consultancy	517.5	0.0	<b>517.5</b>	21.6	425.5	8.6	391.9
Public relations & public affairs	287.3	135.2	<b>422.5</b>	112.2	199.1	20.9	164.7
Branding & identity, healthcare and specialist communications	1,307.0	246.8	<b>1,553.8</b>	50.7	1,031.2	19.8	861.0
	12,212.7	1,736.7	<b>13,949.4</b>	49.3	9,345.9	16.8	8,000.1
<b>Revenue</b>							
Advertising and media investment management	1,227.7	171.3	<b>1,399.0</b>	38.1	1,013.1	6.5	951.3
Information & consultancy	512.1	0.0	<b>512.1</b>	22.0	419.7	14.3	367.2
Public relations & public affairs	262.2	67.9	<b>330.1</b>	84.5	178.9	32.7	134.8
Branding & identity, healthcare and specialist communications	619.3	120.2	<b>739.5</b>	31.8	560.9	20.6	465.1
	2,621.3	359.4	<b>2,980.7</b>	37.2	2,172.6	13.3	1,918.4
<b>PBIT<sup>1</sup></b>							
Advertising and media investment management	192.3	39.0	<b>231.3</b>	48.4	155.9	10.3	141.3
Information & consultancy	51.6	0.0	<b>51.6</b>	22.6	42.1	7.1	39.3
Public relations & public affairs	39.1	4.2	<b>43.3</b>	81.2	23.9	52.2	15.7
Branding & identity, healthcare and specialist communications	82.8	7.0	<b>89.8</b>	30.3	68.9	40.9	48.9
	365.8	50.2	<b>416.0</b>	43.1	290.8	18.6	245.2

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

\* The figures presented for continuing operations include 2000 acquisitions, other than Young & Rubicam Inc.

## 2 Operating costs

	2000 £m	1999 £m	1998 £m	2 Operating costs continued		
Total staff costs (note 3)	<b>1,617.6</b>	1,091.3	952.9	Auditors' remuneration:		
Establishment costs	<b>216.8</b>	158.3	142.4	Audit fees		
Other operating expenses (net)	<b>522.4</b>	341.3	307.2	– Andersen		
Loss on sale of tangible fixed assets	<b>1.3</b>	0.9	0.9	– other		
	<b>2,358.1</b>	1,591.8	1,403.4	Fees in respect of other advisory work		
<b>Operating expenses include:</b>				Fees paid to the auditors in respect of other advisory work include advice to the Group on taxation, acquisitions and, in 2000, work performed in connection with the acquisition of Young & Rubicam Inc.		
Depreciation of tangible fixed assets	<b>63.8</b>	42.2	33.7	Minimum committed annual rentals		
Amortisation of intangible fixed assets	<b>6.6</b>	–	–	Amounts payable (net of taxes) in 2001 under the foregoing leases will be as follows:		
Impairment of intangible fixed assets	<b>8.5</b>	–	–	Plant and machinery		
Operating lease rentals:				Property		
Property (excluding real estate taxes)	<b>125.2</b>	83.1	72.5	2001		
Plant and machinery	<b>21.8</b>	19.6	16.4	2000		
	<b>147.0</b>	102.7	88.9	1999		

	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
In respect of operating leases which expire:						
– within one year	<b>5.4</b>	4.7	5.1	<b>10.2</b>	4.8	7.0
– within two to five years	<b>16.2</b>	15.9	13.2	<b>39.1</b>	24.7	20.4
– after five years	<b>0.3</b>	1.5	0.2	<b>62.3</b>	65.8	49.2
	<b>21.9</b>	22.1	18.5	<b>111.6</b>	95.3	76.6

# Notes to the consolidated profit and loss account continued

## 2 Operating costs continued

Future minimum annual amounts payable (net of taxes) under lease commitments in existence at 31 December 2000 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2001	133.5	(11.3)	122.2
2002	158.7	(8.9)	149.8
2003	147.2	(8.1)	139.1
2004	120.0	(7.7)	112.3
2005	109.5	(7.2)	102.3
Later years (to 2011)	322.0	(44.6)	277.4
	990.9	(87.8)	903.1

## 3 Our people

Our staff numbers averaged 36,157 against 27,711 in 1999, up 31%, including acquisitions. Their geographical distribution was as follows:

	2000 Number	1999 Number	1998 Number
United Kingdom	5,425	4,439	3,973
United States	11,058	8,033	7,082
Continental Europe	7,985	5,650	4,922
Canada, Asia Pacific, Latin America, Africa & Middle East	11,689	9,589	9,612
	36,157	27,711	25,589

At the end of 2000 staff numbers were 51,195 compared with 29,168 in 1999.

Total staff costs were made up as follows:

	2000 £m	1999 £m	1998 £m
Wages and salaries	1,125.1	763.6	666.4
Payments and provisions charged under short- and long-term incentive plans	118.3	71.3	58.6
Social security costs	120.5	86.3	76.7
Other pension costs	40.8	27.7	20.7
Other staff costs	212.9	142.4	130.5
	1,617.6	1,091.3	952.9

Directors' emoluments are disclosed on page 87.

## 4 Net interest payable and similar charges

	2000 £m	1999 £m	1998 £m
On bank loans and overdrafts, and other loans			
- repayable within five years, by instalments	3.2	3.7	2.0
- repayable within five years, not by instalments	38.7	16.0	21.1
- on all other loans (including corporate bond)	14.7	14.1	6.9
Total interest payable	56.6	33.8	30.0
Interest receivable	(22.5)	(10.4)	(10.8)
Net interest payable	34.1	23.4	19.2
Charges in respect of working capital facilities	16.2	12.0	13.2
	50.3	35.4	32.4

Net interest payable increased to £34.1 million from £23.4 million, reflecting the increased level of acquisitions and share repurchases during the year.

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

The majority of the Group's long-term debt is represented by \$300 million of USA bonds at a weighted average interest rate of 6.71% and \$287.5 million of convertible bonds at a rate of 3%. Average borrowings under the Syndicated Revolving Credit Facilities (note 8) amounted to \$422 million at an average interest rate of 6.2% (1999: 6.1%, 1998: 5.7%) inclusive of margin.

## Derivative financial instruments

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

	2000	1999	1998
<b>Swaps</b>			
Notional principal amount	\$350m	\$350m	\$350m
Average pay rate	6.17%	6.17%	5.84%
Average receive rate	LIBOR	LIBOR	LIBOR
Average term	5 months	5 months	6 months
Latest maturity date	Jan 2003	Jan 2003	Jan 2003

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

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

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

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

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

The fair value of derivatives is disclosed in note 22. The Group's policy on derivatives and financial instruments is discussed in the Operating and financial review on pages 29 and 30.

## 5 Tax on profit on ordinary activities

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

	2000 £m	1999 £m	1998 £m
Corporation tax at 30.0% (1999: 30.25%, 1998: 31.0%)	6.4	12.4	12.9
Deferred taxation	(10.6)	(0.7)	-
Overseas taxation	100.3	56.5	51.4
Tax on profits of associate companies	13.6	8.1	6.8
Write-back of previously written-off ACT	-	-	(4.1)
Advance corporation tax written off	-	0.3	-
	109.7	76.6	67.0
Effective tax rate on profit before tax	30.0%	30.0%	31.5%

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

	2000 £m	1999 £m	1998 £m
Tax on pre-tax income at statutory rates of 30.0% (1999 30.25% and 1998: 31.0%)	109.7	77.3	66.0
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	(4.1)	(3.4)	4.3
Utilisation of tax losses brought forward	(9.7)	(4.7)	(5.6)
Unused tax losses carried forward	9.4	6.3	4.6
Differences between UK and overseas statutory standard tax rates	4.4	0.8	1.8
Write-back of previously written-off ACT	-	-	(4.1)
Advance corporation tax written off	-	0.3	-
Tax on profit on ordinary activities	109.7	76.6	67.0

There are tax losses available within the Young & Rubicam Inc. business which may be available to the group going forward.

## 6 Ordinary dividends

	2000	1999	1998	2000	1999	1998
	Pence per share			£m		
Interim dividend paid	1.20p	1.0p	0.84p	9.3	7.8	6.2
Final dividend proposed	2.55p	2.1p	1.72p	28.5	16.2	13.4
	3.75p	3.1p	2.56p	37.8	24.0	19.6

No ACT is payable in respect of the 1998 final dividend, the 1999 and 2000 dividends, owing to the abolition of ACT with effect from April 1999.

## 7 Earnings per ordinary share

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

Basic earnings per share have been calculated using earnings of £244.7 million (1999: £172.8 million, 1998: £140.3 million) and weighted average shares in issue during the year of 834,280,801 shares (1999: 753,324,054 shares, 1998: 735,700,122 shares).

Diluted earnings per share have been calculated using earnings of £244.7 million (1999: £172.8 million, 1998: £140.3 million), as adjusted for income arising on the convertible loan note of £0.9 million (1999: £nil, 1998: £nil). The weighted average shares used was 865,978,000 shares (1999: 768,691,993 shares, 1998: 746,939,733 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 for earnings per share, multiplied by a factor of five. The 1998 figures have been restated following a change in the ratio of ordinary shares per ADR from 10 ordinary shares per ADR to five ordinary shares per ADR.

# Notes to the consolidated cash flow statement

## 8 Sources of finance

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

	2000 Shares £m	2000 Debt £m	1999 Shares £m	1999 Debt £m	1998 Shares £m	1998 Debt £m
<b>Analysis of changes in financing</b>						
Beginning of year	680.4	459.5	639.5	194.2	495.2	97.3
Shares issued in respect of acquisitions	30.2	-	-	-	132.7	-
Other issues of share capital	109.6	-	40.9	-	12.2	-
Shares bought back and cancelled	-	-	-	-	(0.6)	-
Increase in drawings on bank loans	-	126.6	-	258.0	-	97.3
Debt acquired	-	194.9	-	-	-	-
Amortisation/(payment) of financing costs included in net debt	-	0.5	-	1.7	-	(1.2)
Exchange adjustments on long-term borrowings	-	13.1	-	5.6	-	0.8
<b>End of year</b>	<b>820.2</b>	<b>794.6</b>	<b>680.4</b>	<b>459.5</b>	<b>639.5</b>	<b>194.2</b>

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

### Shares

At 31 December 2000, the Company's share base was entirely composed of ordinary equity share capital and share premium of £820.2 million (1999: £680.4 million, 1998: £639.5 million), further details of which are disclosed in notes 23 and 24.

### Debt

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

**Revolving Credit Facilities** The Group's debt is also funded by a \$500 million syndicated Revolving Credit Facility dated July 1998 and a \$700 million facility dated August 2000. The \$500 million facility is due to expire in July 2002 and the \$700 million facility is due to expire in August 2001 although the Group has the ability to extend drawings under this facility until August 2003. The Group's syndicated borrowings drawn down under these agreements averaged \$422 million during the year.

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. Additionally, under certain circumstances, holders of the notes may have the right to require WPP to repurchase the notes. 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.

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

	2000 £m	Change <sup>1</sup> in year £m	1999 £m	Change in year £m	1998 £m
<b>Debt</b>					
Within one year	-	92.7	(92.7)	(92.7)	-
Between one and two years	-	-	-	-	-
Between two and five years	(727.7)	(544.6)	(183.1)	(168.0)	(15.1)
Over five years – by instalments	(66.9)	116.8	(183.7)	(4.6)	(179.1)
<b>Debt financing under the Credit Facility Agreement and from unsecured loan notes</b>	<b>(794.6)</b>	<b>(335.1)</b>	<b>(459.5)</b>	<b>(265.3)</b>	<b>(194.2)</b>
Short-term overdrafts – within one year	(297.6)	(242.0)	(55.6)	39.8	(95.4)
Cash at bank and in hand	1,067.6	460.6	607.0	183.1	423.9
<b>Net (debt)/funds</b>	<b>(24.6)</b>	<b>(116.5)</b>	<b>91.9</b>	<b>(42.4)</b>	<b>134.3</b>

<sup>1</sup>Includes £194.9 million of debt, £117.1 million of short-term overdrafts and £83.5 million of cash at bank acquired.

## 8 Sources of finance continued

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

Currency	£m	Fixed rate <sup>1</sup>	Floating basis	Period (months) <sup>1</sup>
US\$	624.9 <sup>2</sup>	5.37%	n/a	42
US\$	148.0	n/a	LIBOR	n/a
£	178.0	n/a	LIBOR	n/a
Euro	71.6	n/a	LIBOR	n/a
Other	3.7	n/a	various	n/a
	1,026.2			

<sup>1</sup>Weighted average.

<sup>2</sup>Including drawings on working capital facility as described in note 18.

	2000 £m	1999 £m	1998 £m
<b>9 Reconciliation of operating profit to net cash inflow from operating activities</b>			
<b>Operating profit</b>	<b>378.0</b>	263.5	229.1
Depreciation, amortisation and impairment charge	78.9	42.2	33.7
Decrease/(increase) in working capital and provisions	164.8	41.9	(7.7)
Loss on sale of tangible fixed assets	1.3	0.9	0.9
<b>Net cash inflow from operating activities</b>	<b>623.0</b>	348.5	256.0

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:

	2000 £m	1999 £m	1998 £m
<b>Changes in working capital and provisions</b>			
(Increase)/decrease in stocks and work in progress	(14.7)	(1.5)	0.2
(Increase)/decrease in debtors	(434.9)	(165.3)	23.9
Increase/(decrease) in creditors – short term	537.8	155.4	(29.2)
– long term	1.7	43.2	(7.9)
Increase in provisions	74.9	10.1	5.3
<b>Decrease/(increase) in working capital and provisions</b>	<b>164.8</b>	41.9	(7.7)

## 10 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 60:

	2000 £m	1999 £m	1998 £m
<b>Returns on investments and servicing of finance</b>			
Interest and similar charges paid	(74.8)	(42.0)	(36.8)
Interest received	17.9	9.3	10.6
Dividends paid to minorities	(7.7)	(4.4)	(2.5)
<b>Net cash outflow</b>	<b>(64.6)</b>	(37.1)	(28.7)

### Capital expenditure and financial investment

Purchase of tangible fixed assets (note 14)	(111.9)	(64.6)	(51.6)
Purchase of own shares by ESOP trust (note 15)	(94.1)	(17.9)	(33.3)
Proceeds from sale of tangible fixed assets	6.9	2.0	2.8
<b>Net cash outflow</b>	<b>(199.1)</b>	(80.5)	(82.1)

### Acquisition payments

Cash consideration for acquisitions	(206.5)	(242.2)	(111.8)
Less (overdraft)/cash acquired	(33.6)	51.8	6.1
Net purchase of other investments	(40.9)	(11.8)	(9.8)
<b>Net cash outflow</b>	<b>(281.0)</b>	(202.2)	(115.5)

### Financing activities

Increase/(reduction) in drawings on bank loans	126.6	258.0	(81.4)
Share buy-backs	-	-	(21.3)
Financing costs	-	-	(2.3)
Proceeds from issue of shares	78.0	12.0	4.3
Proceeds from issue of bond	-	-	178.8
<b>Net cash inflow</b>	<b>204.6</b>	270.0	78.1

Long-term debt repayments are due as follows:

	2000 £m
2001	-
2002	-
2003	402.8
2004	-
2005	324.9
2006 and beyond	66.9

# Notes to the consolidated balance sheet

## 11 Major non-cash transactions

A certain proportion of the consideration for the acquisitions of subsidiary undertakings during the year comprised the issue of shares. Further details are given in note 25.

## 12 Segment information

Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	2000	1999	1998	2000	1999	1998
	£m	Restated* £m	Restated* £m	£m	Restated* £m	Restated* £m
United Kingdom	981.8	624.6	436.9	144.4	143.2	54.0
United States	5,131.0	990.4	651.4	2,631.0	(296.0)	(331.9)
Continental Europe	1,454.5	714.7	621.2	296.9	144.4	95.6
Canada, Asia Pacific, Latin America, Africa & Middle East	1,544.7	904.7	771.0	386.4	271.2	271.8
	9,112.0	3,234.4	2,480.5	3,458.7	262.8	89.5
Net interest bearing (debt)/funds				(24.6)	91.9	134.3
<b>Net assets in the consolidated balance sheet</b>				<b>3,434.1</b>	<b>354.7</b>	<b>223.8</b>

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	2000	1999	1998	2000	1999	1998
	£m	Restated* £m	Restated* £m	£m	Restated* £m	Restated* £m
Advertising and media investment management	6,494.9	1,878.8	1,644.0	2,582.4	(231.3)	(111.2)
Information & consultancy	630.1	455.0	294.8	154.6	173.5	71.8
Public relations & public affairs	552.7	247.7	167.8	223.3	121.4	68.3
Branding & identity, healthcare and specialist communications	1,434.3	652.9	373.9	498.4	199.2	60.6
	9,112.0	3,234.4	2,480.5	3,458.7	262.8	89.5
Net interest bearing (debt)/funds				(24.6)	91.9	134.3
<b>Net assets in the consolidated balance sheet</b>				<b>3,434.1</b>	<b>354.7</b>	<b>223.8</b>

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

\*The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements, increasing the deferred tax asset by £28 million.

## 13 Intangible fixed assets

	2000 £m	1999 £m	1998 £m
<b>Corporate brand names</b>	<b>950.0</b>	<b>350.0</b>	<b>350.0</b>

Brought forward corporate brand names represent J. Walter Thompson, Hill and Knowlton and Ogilvy & Mather Worldwide. The Group has capitalised an additional £600 million for the corporate brand names from the Young & Rubicam Group, which was acquired during the year. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 56.

	£m
<b>Goodwill</b>	
1 January 1999	158.0
Additions	252.3
31 December 1999	410.3
Additions	3,102.1
Amortisation	(6.6)
Impairment	(8.5)
<b>31 December 2000</b>	<b>3,497.3</b>

Additions represent goodwill arising on the acquisition of subsidiary undertakings. This includes £2,818.5 million arising from the acquisition of Young & Rubicam Inc., which was completed on 4 October 2000. Goodwill arising on the acquisition of associate undertakings is shown within fixed asset investments in note 15. Gross goodwill of £131.0 million is subject to amortisation.

## 14 Tangible fixed assets

The movements in 2000 and 1999 were as follows:

	Land and buildings				Total £m
	Freehold <sup>1</sup> £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	
Cost:					
1 January 1999	11.6	124.9	98.3	131.6	366.4
Additions	0.3	13.0	15.3	36.0	64.6
New acquisitions	0.4	5.0	7.7	5.3	18.4
Disposals	–	(2.8)	(3.0)	(7.7)	(13.5)
Exchange adjustments	0.1	1.5	0.6	(1.0)	1.2
31 December 1999	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
<b>31 December 2000</b>	<b>70.3</b>	<b>239.8</b>	<b>247.3</b>	<b>319.6</b>	<b>877.0</b>

Depreciation:					
1 January 1999	2.8	50.9	61.9	84.1	199.7
New acquisitions	0.1	2.2	3.5	2.4	8.2
Charge	0.3	8.7	11.8	21.4	42.2
Disposals	–	(1.9)	(2.0)	(6.7)	(10.6)
Exchange adjustments	0.1	1.0	0.4	(0.6)	0.9
31 December 1999	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
<b>31 December 2000</b>	<b>18.7</b>	<b>106.4</b>	<b>157.8</b>	<b>203.9</b>	<b>486.8</b>

Net book value:					
<b>31 December 2000</b>	<b>51.6</b>	<b>133.4</b>	<b>89.5</b>	<b>115.7</b>	<b>390.2</b>
31 December 1999	9.1	80.7	43.3	63.6	196.7
1 January 1999	8.8	74.0	36.4	47.5	166.7

<sup>1</sup>Includes land of £18.3 million.

Leased assets (other than leasehold property) included above have a net book value of £3.6 million (1999: £3.1 million, 1998: £2.3 million).

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

	2000 £m	1999 £m	1998 £m
Capital commitments	12.6	1.4	0.6

# Notes to the consolidated balance sheet continued

## 15 Fixed asset investments

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

	Associate under-takings £m	Goodwill on associate under-takings £m	Own shares £m	Other investments £m	Total £m
1 January 1999	86.4	90.6	58.1	33.1	268.2
Additions	2.6	-	17.9	19.2	39.7
Goodwill arising on acquisition of new associates	-	40.5	-	-	40.5
Share of profits after tax of associate undertakings	19.2	-	-	-	19.2
Dividends and other movements	(6.3)	-	-	(1.5)	(7.8)
Exchange adjustments	7.6	-	-	-	7.6
Disposals	(2.3)	-	(4.7)	(3.5)	(10.5)
31 December 1999	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	(7.4)	-	-	-	(7.4)
Other movements	(2.0)	5.8	-	(5.8)	(2.0)
Exchange adjustments	(4.7)	-	-	-	(4.7)
Disposals	-	-	(5.2)	(0.3)	(5.5)
<b>31 December 2000</b>	<b>165.8</b>	<b>142.0</b>	<b>160.2</b>	<b>83.5</b>	<b>551.5</b>

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
Batey Ads (Pte) Limited	32.4	Singapore
Brierley & Partners	20.0	USA
Chime Communications PLC	24.9	United Kingdom
DYR Tokyo Agency <sup>1</sup>	49.0	Japan
High Co S.A.	30.0	France
IBOPE Group	31.0	Brazil
Singleton, Ogilvy & Mather (Holdings) Pty Limited	40.7	Australia

<sup>1</sup>acquired in 2000

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 92 to 99.

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 2000 was 36,208,185, (1999: 27,888,766, 1998: 25,532,484) and £315.7 million (1999: £273.6 million, 1998: £93.4 million) respectively.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2000 was as follows: Asatsu-DK - £166.0 million, Chime Communications PLC - £76.5 million, High Co S.A. - £19.8 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Other investments include a UK listed investment of £24.3 million (1999: £24.3 million, 1998: £19.9 million). This represents an interest of 17.5% (1999: 18.1%, 1998: 17.9%) in the ordinary share capital of Tempus Group PLC, Europe's second largest independent media investment manager.

## 16 Stocks and work in progress

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

	2000 £m	1999 £m	1998 £m
Work in progress	238.2	110.4	104.5
Stocks	2.9	3.1	2.8
	<b>241.1</b>	<b>113.5</b>	<b>107.3</b>

## 17 Debtors

The following are included in debtors:

	2000 £m	1999 Restated* £m	1998 Restated* £m
<b>Amounts falling due within one year</b>			
Trade debtors outside working capital facility	1,699.4	770.0	678.9
VAT and sales taxes recoverable	20.9	13.5	4.0
Corporate income taxes recoverable	13.2	8.7	9.9
Deferred tax	57.4	28.0	28.0
Other debtors	229.6	143.4	126.5
Prepayments and accrued income	121.4	64.3	46.8
	<b>2,141.9</b>	<b>1,027.9</b>	<b>894.1</b>

## Amounts falling due after more than one year

	2000 £m	1999 Restated* £m	1998 Restated* £m
Other debtors	31.2	34.7	20.5
Prepayments and accrued income	7.9	5.8	6.5
	<b>39.1</b>	<b>40.5</b>	<b>27.0</b>
	<b>2,181.0</b>	<b>1,068.4</b>	<b>921.1</b>

## Movements on bad debt provisions were as follows:

	2000 £m	1999 £m	1998 £m
Balance at beginning of year	16.6	16.5	15.6
Charged/(credited):			
To costs and expenses	16.5	4.0	4.6
Exchange adjustments	0.8	(0.1)	(0.4)
Other	(10.5)	(3.8)	(3.3)
Balance at end of year	23.4	16.6	16.5

The allowance for doubtful debts is equivalent to 1.2% (1999: 1.8%, 1998: 2.1%) of gross trade accounts receivable.

A deferred tax asset of £77 million has not been recognised on losses available to carry forward across the Group. 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.

\*The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The impact of this restatement is to increase debtors falling due within one year by £28.0 million in 1998 and 1999. There was no impact on the tax charge in 1998 or 1999 as a result of this restatement.

## 18 Debtors within working capital facility

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

	2000 £m	1999 £m	1998 £m
Gross debts	464.9	345.7	294.5
Non-returnable proceeds	(231.6)	(214.1)	(209.2)
	<b>233.3</b>	<b>131.6</b>	<b>85.3</b>

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

The Group is not obliged (and does not intend) to support any credit-related losses arising from the assigned debts against which cash has been advanced. The providers of the finance have confirmed in writing that, in the event of default in payment by a debtor, they will only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that repayment will not be sought from the Group in any other way.

## 19 Creditors: amounts falling due within one year

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

	2000 £m	1999 £m	1998 £m
Bank loans and overdrafts (note 8)	297.6	148.3	95.4
Trade creditors	2,574.9	1,315.0	1,102.4
Corporate income taxes payable	42.4	34.6	50.0
Other taxation and social security	122.5	68.9	52.0
Dividends proposed	28.5	16.2	13.4
Payments due to vendors	94.1	41.2	14.3
Other creditors and accruals	824.8	398.0	338.7
Deferred income	267.6	125.8	111.1
	<b>4,252.4</b>	<b>2,148.0</b>	<b>1,777.3</b>

Bank loans and overdrafts include overdrafts of £297.6 million (1999: £55.6 million, 1998: £95.4 million).



# Notes to the consolidated balance sheet continued

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

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

	2000 £m	1999 £m	1998 £m
Corporate bond, convertible loan note and bank loans (note 8)	794.6	366.8	194.2
Corporate income taxes payable	212.5	122.9	91.3
Payments due to vendors	208.2	131.2	83.6
Other creditors and accruals	64.3	31.6	32.4
	<b>1,279.6</b>	652.5	401.5

## 21 Provisions for liabilities, charges and contingent liabilities

The movement in the year on provisions comprises:

	Pensions and other post- retirement benefits £m	Long- term incentive plans £m	Other £m	Total £m
1 January 1999	42.7	21.8	13.4	77.9
Charged to the profit and loss account	4.1	15.2	2.5	21.8
New acquisitions	–	–	0.8	0.8
Utilised	(3.2)	(14.4)	(1.8)	(19.4)
Transfers	0.4	–	(0.3)	0.1
Exchange adjustments	(2.1)	–	0.1	(2.0)
31 December 1999	41.9	22.6	14.7	79.2
Charged to the profit and loss account	5.1	17.5	1.2	23.8
New acquisitions	25.3	–	27.6	52.9
Utilised	(2.8)	(9.3)	(4.1)	(16.2)
Transfers	0.2	–	2.1	2.3
Exchange adjustments	0.7	1.4	1.8	3.9
<b>31 December 2000</b>	<b>70.4</b>	<b>32.2</b>	<b>43.3</b>	<b>145.9</b>

During the year £7.9 million of excess provisions relating to prior year acquisitions were released to the profit and loss account.

21 Provisions for liabilities, charges and contingent liabilities continued

### Long-term incentive plans

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 2000 that may become payable after more than one year, as described in the Compensation committee report on pages 92 to 99.

### Other provisions

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.

### Contingent liabilities

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

## Pension provisions and pension arrangements

Companies within the Group operate a large number of both defined benefit and defined contribution 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:

	2000 £m	1999 £m	1998 £m
Defined contribution schemes	25.3	21.4	14.7
Defined benefit schemes	10.7	6.4	5.9
	<b>36.0</b>	27.8	20.6

### Defined benefit schemes

Defined benefit schemes exist in many countries. However, the principal schemes are operated in the US, UK and Japan.

Pension costs for these schemes are assessed in accordance with actuarial advice.<sup>†</sup> Valuations of the principal schemes have generally been carried out as at 31 December 2000. The following table discloses the method and assumptions used to derive the pensions charge for the principal schemes:

	2000 Pension cost £m	Market valuation of assets <sup>1</sup> £m	Main actuarial assumptions						Spreading method	Funding ratio %
			Valuation method	Investment return % pa	Salary increases % pa	Pension increases % pa	Dividend growth % pa			
<b>US Schemes</b>										
O&M Account Balance Plan	4.1	51.6	projected unit	7.5	5.50	nil	n/a	straight line	97%	
Ogilvy PR	0.8	4.0	projected unit	8.0	5.25	nil	n/a	straight line	83%	
Y&R Pension Plan	0.1	91.4	projected unit	8.25	7.57	nil	n/a	straight line	102%	
<b>UK Schemes</b>										
O&M Pension Plan	0.9	74.8	Attained Age	9.50	6.00	5.0	5.00	Fixed % of pay	97%	
JWT Pension Scheme	0.7	45.0	Attained Age	6(pre)/5.25(post)	4.00	3.0	n/a	Fixed % of pay	93%	
JWT Directors' Scheme	0.3	28.6	Attained Age	6(pre)/5.25(post)	0.00	3.0	n/a	Fixed % of pay	90%	
<b>Japan Schemes</b>										
JWT Employee Retirement Plan	2.3	0.8	projected unit	3.00	2.00	nil	n/a	straight line	11%	

<sup>†</sup> From an independent qualified actuary.

<sup>1</sup> All schemes allow for the market value of assets for funding and accounting purposes, except for the UK O&M Pension Plan, which allows for an actuarial value of assets of £46.2 million.

# Notes to the consolidated balance sheet continued

## 22 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 2001	31 December 2000	31 December 1999
	Swaps £m	Swaps £m	Swaps £m
Fair value	(3.8)	(0.5)	3.7
Book value	nil	nil	nil

### Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 2000 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 US\$300 million bonds and £287.5 million convertible debt at 31 December 2000 was £394.0 million. This is calculated by reference to market prices at 31 December 2000. 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.

## 23 Authorised and issued share capital

	2000 Number m	2000 £m	1999 Number m	1999 £m	1998 Number m	1998 £m
<b>Authorised:</b>						
Equity ordinary shares of 10p each	1,750	175.0	1,250	125.0	1,250	125.0
<b>Issued:</b>						
Equity ordinary shares of 10p each	1,111.9	111.2	774.5	77.5	766.5	76.6

Movements in each year are shown in note 24.

### Share options

As at 31 December 2000, unexercised options over ordinary shares of 20,342,000 and unexercised options over ADRs of 16,373,106 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
39,879	1.330	1996 – 2001
91,474	0.560	1997 – 2002
90,052	0.295	1995 – 2002
161,183	1.020	1996 – 2003
19,194	1.150	1997 – 2004
1,503,799	1.190	1997 – 2004
834,181	1.080	1998 – 2005
3,088,265	1.540	1998 – 2005
918,723	2.140	1999 – 2006
3,630,607	2.335	1999 – 2006
12,074	2.535	2000 – 2007
3,478,770	2.835	2000 – 2007
30,132	3.030	2001 – 2008
4,333,770	2.930	2001 – 2008
47,450	3.270	2001 – 2008
419,811	5.185	2002 – 2009
766,479	5.700	2002 – 2009
94,691	10.770	2003 – 2010
781,466	9.010	2003 – 2010

## 23 Authorised and issued share capital continued

	Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
	2,241,707	2.300	2000 – 2006
	1,708,927	9.200	2000 – 2006
	243,173	9.200	2000 – 2007
	4,062,843	14.750	2000 – 2007
	34,504	14.750	2000 – 2008
	42,397	17.150	2000 – 2008
	125,250	17.950	2000 – 2008
	33,400	29.950	2000 – 2008
	125,250	34.000	2000 – 2008
	470,426	34.050	2000 – 2008
	16,700	34.150	2000 – 2008
	76,820	35.650	2000 – 2008
	146,125	37.150	2000 – 2008
	1,714,551	44.600	2000 – 2009
	8,350	45.800	2000 – 2009
	477,228	46.475	2002 – 2009
	78,885	46.550	2000 – 2009
	8,350	47.700	2000 – 2009
	16,700	48.200	2000 – 2010
	16,700	48.500	2000 – 2009
	104,375	48.800	2000 – 2009
	4,175	50.300	2000 – 2010
	1,155,546	51.050	2001 – 2010
	1,155,546	51.050	2002 – 2010
	1,155,546	51.050	2003 – 2010
	8,350	51.350	2000 – 2009
	16,700	51.850	2000 – 2009
	35,070	53.450	2000 – 2009
	253,005	54.050	2000 – 2009
	2,088	54.800	2000 – 2009
	4,175	54.850	2000 – 2009
	8,350	55.300	2000 – 2009
	75,150	56.300	2000 – 2009
	4,886	56.300	2000 – 2010
	12,525	57.200	2000 – 2009
	2,227	59.650	2001 – 2010
	2,227	59.650	2002 – 2010
	2,227	59.650	2003 – 2010
	6,976	60.000	2003 – 2010
	1,392	60.350	2001 – 2010
	1,392	60.350	2002 – 2010
	1,392	60.350	2003 – 2010
	6,263	60.500	2000 – 2010
	4,830	62.110	2005 – 2010
	106,694	62.110	2003 – 2010
	402,505	63.263	2003 – 2010
	2,227	63.450	2001 – 2010
	2,227	63.450	2002 – 2010
	2,227	63.450	2003 – 2010
	6,958	63.700	2001 – 2010
	6,958	63.700	2002 – 2010
	6,958	63.700	2003 – 2010
	1,948	63.750	2001 – 2010
	1,948	63.750	2002 – 2010
	1,948	63.750	2003 – 2010
	33,400	64.350	2000 – 2010
	2,783	64.600	2001 – 2010
	2,783	64.600	2002 – 2010
	2,783	64.600	2003 – 2010
	1,391	65.100	2001 – 2010
	1,391	65.100	2002 – 2010
	1,391	65.100	2003 – 2010
	7,120	66.700	2001 – 2010
	7,120	66.700	2002 – 2010
	7,120	66.700	2003 – 2010
	2,227	67.050	2001 – 2010
	2,227	67.050	2002 – 2010
	2,227	67.050	2003 – 2010
	2,783	68.500	2001 – 2010
	2,783	68.500	2002 – 2010
	2,783	68.500	2003 – 2010
	15,865	71.800	2000 – 2010
	1,058	72.600	2001 – 2010
	1,058	72.600	2002 – 2010
	1,058	72.600	2003 – 2010
	41,428	84.485	2003 – 2010
	15,030	84.750	2000 – 2010



# Notes to the consolidated balance sheet continued

## 23 Authorised and issued share capital continued

As at 31 December 2000, unexercised options totalling 4,634,490 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
<b>WPP Worldwide Share Ownership Programme</b>		
266,325	2.695	2000 – 2007
1,762,075	3.030	2001 – 2008
1,394,225	5.315	2002 – 2009
1,211,865	7.790	2003 – 2010

Further grants were made on 19 March 2001 of 1,024 options on ordinary shares at £8.11 exercisable between 2005 and 2011; 2,560 options on ordinary shares at £8.11 exercisable between 2004 and 2005; 133,877 options on ordinary shares at £8.11 exercisable between 2004 and 2011; 69,805 options on ADRs at \$58.2375 exercisable between 2004 and 2011.

The aggregate status of the WPP Share Option Schemes during 2000 was as follows:

### Movement on options granted (represented in ordinary shares)

1 January 2000 number	Granted number	Granted as consideration for the acquisition of Y&R	Exercised number	Lapsed number	31 December 2000 number	
WPP	32,940,834	6,419,489	–	6,196,125	2,989,401	30,174,797
Y&R	–	–	105,229,764	28,562,541	–	76,667,223
	32,940,834	6,419,489	105,229,764	34,758,666	2,989,401	106,842,020

### Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.2950–10.77	3.15	79.51

### Options outstanding over ADRs

Range of exercise prices \$	Weighted average exercise price \$	Weighted average contractual life Months
2.30–84.75	28.94	91.79

## 23 Authorised and issued share capital continued

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

	2000	1999	1998
Fair value of UK options (shares)	<b>286.1p</b>	134.0p	71.5p
Fair value of US options (ADRs)	<b>\$16.18</b>	–	–
Weighted average assumptions:			
UK Risk-free interest rate	<b>6.02%</b>	5.23%	5.84%
US Risk-free interest rate	<b>5.94%</b>	–	–
Expected life (months)	<b>36</b>	36	36
Expected volatility	<b>40%</b>	28%	25%
Dividend yield	<b>0.6%</b>	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 awards made under the Leadership Equity Acquisition Program ('LEAP') in the year, calculated using the Black-Scholes model, were as follows:

	2000	1999
Fair value	<b>299.9p</b>	233.8p
Weighted average assumptions:		
Risk-free interest rate	<b>5.80%</b>	5.23%
Expected life (months)	<b>48</b>	60
Expected volatility	<b>40%</b>	28%
Dividend yield	<b>0.6%</b>	0.6%

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

## 24 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 <sup>1</sup> £m	Total £m
<b>Balance at 1 January 1998</b>	<b>73.6</b>	<b>421.6</b>	–	–	<b>(1,082.0)</b>	<b>561.6</b>	<b>(25.2)</b>
FRS 19 (Deferred tax) Restatement	–	–	–	–	–	28.0	28.0
<b>Adjusted balance at 1 January 1998</b>	<b>73.6</b>	<b>421.6</b>	–	–	<b>(1,082.0)</b>	<b>589.6</b>	<b>2.8</b>
1998 movements							
Ordinary shares issued in respect of acquisitions	3.1	129.6	–	–	–	(27.3) <sup>2</sup>	105.4
Other ordinary shares issued	0.5	11.7	–	–	–	(8.1)	4.1
Transfers between reserves	–	–	–	120.5	985.4	(1,105.9)	–
Currency translation movement	–	–	–	–	4.0	–	4.0
Retained profit for the financial year	–	–	–	–	–	120.7	120.7
Share buy-backs	(0.6)	–	–	–	0.6	(21.3)	(21.3)
<b>Adjusted balance at 31 December 1998</b>	<b>76.6</b>	<b>562.9</b>	–	<b>120.5</b>	<b>(92.0)</b>	<b>(452.3)</b>	<b>215.7</b>
1999 movements							
Ordinary shares issued	0.9	40.0	–	0.8	–	(28.8) <sup>2</sup>	12.9
Currency translation movement	–	–	–	–	(31.2)	–	(31.2)
Retained profit for the financial year	–	–	–	–	–	148.8	148.8
<b>Adjusted balance at 31 December 1999</b>	<b>77.5</b>	<b>602.9</b>	–	<b>121.3</b>	<b>(123.2)</b>	<b>(332.3)</b>	<b>346.2</b>
2000 movements							
Ordinary shares issued in respect of acquisitions	<b>30.2</b>	–	<b>547.3</b>	<b>2,383.3</b>	–	–	<b>2,960.8</b>
Exercises of options granted on acquisition of Young & Rubicam Inc.	<b>2.9</b>	<b>62.5</b>	<b>(160.6)</b>	<b>160.6</b>	–	<b>(13.9)</b>	<b>51.5</b>
Share issue costs charged to merger reserve	–	–	–	<b>(35.0)</b>	–	–	<b>(35.0)</b>
Other ordinary shares issued	<b>0.6</b>	<b>43.6</b>	–	–	–	<b>(31.7)<sup>2</sup></b>	<b>12.5</b>
Currency translation movement	–	–	–	–	<b>(133.0)</b>	–	<b>(133.0)</b>
Retained profit for the financial year	–	–	–	–	–	<b>206.9</b>	<b>206.9</b>
<b>Balance at 31 December 2000</b>	<b>111.2</b>	<b>709.0</b>	<b>386.7</b>	<b>2,630.2</b>	<b>(256.2)</b>	<b>(171.0)</b>	<b>3,409.9</b>

Other reserves at 31 December 2000 comprise: currency translation deficit £257.5 million (1999: £124.5 million, 1998: £93.3 million), capital redemption reserve £1.3 million (1999: £1.3 million, 1998: £1.3 million), goodwill write-off reserve £nil (1999: £nil, 1998: £1,160.4 million).

<sup>1</sup> Share owners' funds have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The impact of this on opening funds of £318.2 million as previously reported, is to increase these to £346.2 million as restated.

<sup>2</sup> 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.

# Notes to the consolidated balance sheet continued

## 25 Acquisition of Young & Rubicam, Inc.

On 4 October 2000 the Company finalised its acquisition of Young & Rubicam Inc. As a result the value of the consideration which was satisfied entirely by the issue of new WPP ordinary shares or WPP American Depositary Shares has been calculated by reference to the opening WPP share price on 4 October 2000 of £7.99.

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 <sup>1</sup> £m	Fair value adjustments <sup>2</sup> £m	Fair value to Group £m
Goodwill and intangible fixed assets	34.5	(8.6)	597.8 <sup>(a)</sup>	623.7
Tangible fixed assets	128.6	(5.1)	14.4 <sup>(a)</sup>	137.9
Investments	102.8	–	(54.1) <sup>(a)</sup>	48.7
Current assets	1,113.5	–	(164.8) <sup>(a)</sup>	948.7
<b>Total assets</b>	<b>1,379.4</b>	<b>(13.7)</b>	<b>393.3</b>	<b>1,759.0</b>
Payments due to vendors within one year	–	(15.0)	–	(15.0)
Other creditors due within one year	(1,104.3)	–	(51.7) <sup>(a)</sup>	(1,156.0)
Payments due to vendors after one year	–	(53.0)	–	(53.0)
Other creditors due after one year	(281.5)	–	–	(281.5)
Provision for reorganisation and restructuring <sup>3</sup>	(23.9)	–	–	(23.9)
Other provisions	(39.9)	–	(19.6) <sup>(a)</sup>	(59.5)
<b>Total liabilities</b>	<b>(1,449.6)</b>	<b>(68.0)</b>	<b>(71.3)</b>	<b>(1,588.9)</b>
<b>Net assets</b>	<b>(70.2)</b>	<b>(81.7)</b>	<b>322.0</b>	<b>170.1</b>
Minority interest				(9.7)
Goodwill				2,818.5
Consideration				2,978.9
<b>Consideration satisfied by:</b>				
Shares issued				2,412.1
Shares to be issued				547.3
Capitalised acquisition costs				19.5
				<b>2,978.9</b>

## Notes

The table above sets out the details of the merger with Young & Rubicam Inc., which was completed on 4 October 2000 and has been accounted for as an acquisition.

### 1 Accounting policy alignments

These comprise adjustments to bring the assets and liabilities of Young & Rubicam Inc. into compliance with WPP Group plc's UK GAAP accounting practices and policies. These adjustments include recognition of contingent consideration due to vendors based upon the directors' best estimate of payments likely to be made as at the date of acquisition.

### 2 Fair value adjustments

These comprise adjustments to bring the book value of the assets and liabilities of Young & Rubicam Inc. to fair value:

- Recognition of the corporate brand name of Young & Rubicam Inc.
- Revaluation of freehold interest in Young & Rubicam's New York offices at 285 Madison Avenue to fair value and write down of certain other tangible fixed assets, primarily computer equipment, to fair value.
- Revaluation of internet investments to fair value.
- Restatement of deferred tax assets.
- Recognition of accrual for social taxes payable on share options and accruals for the costs of legal cases existing at the date of acquisition.
- Provision for certain contingent liabilities where the likelihood of settlement is considered probable at the date of acquisition.

### 3 Provision for reorganisation and restructuring

Accruals for severance payments arising from change in control clauses in employee contracts, triggered as a result of the acquisition by WPP Group plc.

Net cash outflows in respect of the acquisition of Young & Rubicam Inc. comprised:

	£m
Cash at bank and in hand acquired	78.2
Bank overdrafts acquired	(99.7)
Share issue and acquisition costs	(24.6)
	<b>(46.1)</b>

Young & Rubicam Inc. contributed £203.4 million to the Group's net operating cash flows, paid £3.3 million in respect of net returns on investment and servicing of finance, paid £7.2 million in respect of taxation and utilised £21.9 million for capital expenditure.

## 25 Acquisition of Young & Rubicam, Inc. continued

The summarised profit and loss accounts and statements of total recognised gains and losses of Young & Rubicam Inc. for the period from 1 January 2000 to 4 October 2000 and the year ended 31 December 1999 are summarised below. These amounts are shown in US Dollars, on the basis of the accounting policies of Young & Rubicam Inc. prior to the acquisition. The post acquisition contribution of Young & Rubicam Inc. is shown on the face of the group's profit and loss account on pages 58 and 59.

Young & Rubicam Inc. Profit and loss account – period ended 4 October 2000	Period ended 4 October 2000 \$USm	Year ended 31 December 1999 \$USm
<b>Turnover</b>	6,208.1	8,530.9
Cost of sales	(4,796.1)	(6,813.7)
<b>Gross profit</b>	1,412.0	1,717.2
Other operating expenses (net)	(1,276.2)	(1,509.1)
<b>Operating profit</b>	135.8	208.1
Exceptional items:		
Merger costs	(66.0)	–
Other income <sup>1</sup>	12.2	85.0
Finance charges (net)	(13.9)	(14.8)
<b>Profit on ordinary activities before taxation</b>	68.1	278.3
Tax on profit on ordinary activities	(47.3)	(111.3)
<b>Profit on ordinary activities after taxation</b>	20.8	167.0
Equity income <sup>2</sup>	3.0	4.5
Minority interests	(2.2)	(4.4)
<b>Profit for the financial period</b>	21.6	167.1

Statement of comprehensive income	\$USm	\$USm
Profit for the financial period	21.6	167.1
Unrealised (deficit)/surplus on revaluation of equity securities	(177.0)	145.0
Loss on foreign currency translation	(22.7)	(22.3)
Minimum pension liability	–	0.4
Total recognised gains and losses relating to the period (178.1)		290.2

<sup>1</sup>Other income in the period ended 4 October 2000 includes the gain on sale of certain assets and rights known as Y&R Teamspace to eMotion Inc. and other net gains from investing activities, including additional consideration received as a result of achieving revenue and operating profit performance targets of the Brand Dialogue assets contributed to Luminant Worldwide corporation in 1999.

Other income in 1999 includes the net pre-tax gain on the sale of certain assets of Brand Dialogue operations in exchange for an ownership interest in Luminant and additional consideration received as a result of achieving revenue and operating profit performance targets of the Brand Dialogue contributed assets.

<sup>2</sup>Equity income has been presented below profit on ordinary activities after taxation in accordance with US GAAP.

## 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
Sifo Research & Consulting	(10.6)	(2.8)	(13.4)	30.9	44.3
Other	11.9	(28.3)	(16.4)	212.9	229.3
	1.3	(31.1)	(29.8)	243.8	273.6

Goodwill above of £273.6 million includes £268.5 million in respect of the acquisition of subsidiary undertakings and £5.1 million in respect of associate undertakings. Included in these amounts are £141.6 million of cash paid and £102.2 million of additional future anticipated payments to vendors, based on the directors' best estimates of future obligations, which are dependent on future performance of the interests acquired. Cash paid to vendors in respect of consideration accrued in prior years amounted to £40.3 million.

Fair value adjustments of £31.1 million arising on these acquisitions include £17.1 million of additional tax liabilities and £14.0 million of other liabilities.

## 26 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 2000

	Notes	2000 £m	1999 £m	1998 £m
<b>Fixed assets</b>				
Tangible assets	27	13.4	10.3	5.8
Investments	28	6,042.2	1,808.6	1,661.1
		<b>6,055.6</b>	1,818.9	1,666.9
<b>Current assets</b>				
Debtors (including amounts falling due after more than one year)	29	148.0	88.7	60.4
Cash at bank and in hand		49.2	2.4	1.2
		<b>197.2</b>	91.1	61.6
<b>Creditors: amounts falling due within one year</b>	30	<b>(997.3)</b>	(370.8)	(329.6)
<b>Net current liabilities</b>		<b>(800.1)</b>	(279.7)	(268.0)
<b>Total assets less current liabilities</b>		<b>5,255.5</b>	1,539.2	1,398.9
<b>Creditors: amounts falling due after more than one year</b>	31	<b>(192.9)</b>	(441.2)	(346.2)
<b>Net assets</b>		<b>5,062.6</b>	1,098.0	1,052.7
<b>Capital and reserves</b>				
Called up share capital	32	111.2	77.5	76.6
Share premium account	32	709.0	602.9	562.9
Shares to be issued	32	386.7	–	–
Merger reserve	32	2,665.2	121.3	120.5
Other reserves	32	91.5	91.5	91.5
Profit and loss account	32	1,099.0	204.8	201.2
<b>Total equity capital employed</b>		<b>5,062.6</b>	1,098.0	1,052.7

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

Signed on behalf of the Board on 4 May 2001:

**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 £932.1 million (1999: profit of £27.6 million, 1998: loss of £8.8 million) in respect of the Company. This includes dividend income received from subsidiaries of £923.0 million (1999: £39.3 million, 1998: £31.5 million).

# Notes to the Company balance sheet

## 27 Tangible fixed assets

The movements in 2000 and 1999 were as follows:

	Short lease-hold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Costs:				
1 January 1999	1.2	0.8	7.2	9.2
Additions	0.4	–	5.4	5.8
31 December 1999	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)
<b>31 December 2000</b>	<b>1.3</b>	<b>0.5</b>	<b>15.0</b>	<b>16.8</b>
Depreciation:				
1 January 1999	0.8	0.6	2.0	3.4
Charge	0.2	–	1.1	1.3
31 December 1999	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)
<b>31 December 2000</b>	<b>0.4</b>	<b>0.3</b>	<b>2.7</b>	<b>3.4</b>
Net book value:				
<b>31 December 2000</b>	<b>0.9</b>	<b>0.2</b>	<b>12.3</b>	<b>13.4</b>
31 December 1999	0.6	0.2	9.5	10.3
1 January 1999	0.4	0.2	5.2	5.8

## 28 Fixed asset investments

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

	Subsidiary under-takings £m	Own shares £m	Total £m
1 January 1999	1,603.0	58.1	1,661.1
Additions	308.1	17.9	326.0
Disposals	(108.9)	(4.7)	(113.6)
Return of capital from subsidiary undertakings	(64.9)	–	(64.9)
31 December 1999	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)
<b>31 December 2000</b>	<b>5,882.0</b>	<b>160.2</b>	<b>6,042.2</b>

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

## 29 Debtors

The following are included in debtors:

	2000 £m	1999 £m	1998 £m
Amounts owed by subsidiary undertakings	<b>112.2</b>	49.7	28.8
Other debtors	<b>35.8</b>	39.0	31.6
	<b>148.0</b>	88.7	60.4

Included within amounts owed by subsidiary undertakings are loans totalling £nil (1999: £nil, 1998: £5.2 million) which fall due for repayment after more than one year.

## 30 Creditors: amounts falling due within one year

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

	2000 £m	1999 £m	1998 £m
Bank loans and overdrafts	<b>10.9</b>	25.5	49.1
Amounts due to subsidiary undertakings	<b>912.2</b>	313.8	245.1
Taxation and social security	<b>0.8</b>	10.6	6.9
Dividends proposed	<b>28.5</b>	16.2	13.3
Other creditors and accruals	<b>44.9</b>	4.7	15.2
	<b>997.3</b>	370.8	329.6

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

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

	2000 £m	1999 £m	1998 £m
Bank loans	<b>–</b>	180.3	10.0
Amounts due to subsidiary undertakings	<b>182.7</b>	252.0	323.9
Other creditors and accruals	<b>10.2</b>	8.9	12.3
	<b>192.9</b>	441.2	346.2

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

	2000 £m	1999 £m	1998 £m
Within two to five years	<b>–</b>	180.3	10.0

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

## 32 Share owners' funds

Movements during the year were as follows:

	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	77.5	602.9	–	121.3	91.5	204.8
Ordinary shares issued in respect of acquisitions	30.2	–	547.3	2,383.3	–	–
Exercise of options granted on acquisition of Young & Rubicam Inc.	2.9	62.5	(160.6)	160.6	–	–
Other ordinary shares issued	0.6	43.6	–	–	–	–
Retained profit for the financial year	–	–	–	–	–	894.2
	111.2	709.0	386.7	2,665.2	91.5	1,099.0

Other reserves at 31 December 2000 comprise: Currency translation deficit £37.2 million (1999: £37.2 million, 1998: £37.2 million), capital redemption reserve £1.3 million (1999: £1.3 million, 1998: £1.3 million) and capital reserve £127.4 million (1999: £127.4 million, 1998: £127.4 million).

At 31 December 2000 the Company's distributable reserves amounted to £197.3 million. Further details of the Company's movements in share capital are shown in notes 23 and 24.

# Reconciliation to US Accounting Principles

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:

	For the year ended 31 December			
	Notes	2000 £m	1999* £m	1998* £m
<b>Net income</b>				
Profit attributable to ordinary share owners under UK GAAP		244.7	172.8	140.3
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	1	(83.2)	(42.1)	(38.2)
Executive compensation	1	(38.3)	(58.4)	(2.6)
Contingent consideration deemed as compensation	1	(8.6)	–	–
Deferred tax items	1	8.3	9.6	0.9
		(121.8)	(90.9)	(39.9)
Net income as adjusted for US GAAP		122.9	81.9	100.4
<b>Statement of comprehensive income</b>				
Net income as adjusted for US GAAP		122.9	81.9	100.4
Revaluation of investments marked to market		(6.8)	41.2	–
Foreign currency net investment		(133.0)	(31.2)	4.0
Total recognised gains & losses relating to the period		(16.9)	91.9	104.4

## Earnings per share

Basic earnings per share as adjusted for US GAAP (p)	2	14.7	10.9	13.6
Diluted earnings per share as adjusted for US GAAP (p)	2	14.1	10.6	13.4

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:

	2000	1999	1998
Net income as adjusted for US GAAP:			
As reported (£m)	122.9	81.9	100.4
Pro forma (£m)	116.0	77.7	97.7
Basic earnings per share per US GAAP:			
As reported (p)	14.7	10.9	13.6
Pro forma (p)	13.9	10.3	13.3

Further details regarding stock option plans and the fair valuation of option grants can be found in note 23.

	Notes	As at 31 December		
		2000 £m	1999* £m	1998* £m
<b>Share owners' funds</b>				
Share owners' funds under UK GAAP		3,409.9	346.2	215.7
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	834.5	685.2	762.7
Revaluation of investments marked to market		34.4	41.2	–
Contingent consideration deemed as compensation	1	(8.6)	–	–
Shares owned by Employee Share Option Plan (ESOP)	1	(160.2)	(71.3)	(58.1)
Deferred tax items	1	14.3	6.0	(3.6)
Proposed final ordinary dividend, not yet declared	1	28.5	16.2	13.4
Other		(3.7)	(3.9)	(4.4)
		739.2	673.4	710.0
Share owners' funds as adjusted for US GAAP	2	4,149.1	1,019.6	925.7

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £4,776.8 million (1999: £1,582.6 million, 1998: £1,509.5 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

	2000 £m	1999* £m	1998* £m
Net income for the year under US GAAP	122.9	81.9	100.4
Prior year final dividend	(16.2)	(13.4)	(10.5)
Current year interim dividend	(9.3)	(7.8)	(6.2)
Retained earnings for the year	97.4	60.7	83.7
Ordinary shares issued in respect of acquisitions	3,225.3	0.8	105.4
Share issue costs charged to merger reserve	(35.0)	–	–
Share options exercised	64.0	12.1	4.1
Shares owned by Employee Share Option Plan	(88.9)	(13.2)	(31.1)
Revaluation of investments marked to market	(6.8)	41.2	–
Share buy-backs	–	–	(21.3)
Exchange adjustments:			
– Revaluation of goodwill	(31.8)	(34.9)	43.1
– Foreign currency net investment	(133.0)	(31.2)	4.0
Executive compensation	38.3	58.4	2.6
New additions to share owners' funds	3,129.5	93.9	190.5
Share owners' funds at 1 January	1,019.6	925.7	735.2
Share owners' funds at 31 December	4,149.1	1,019.6	925.7

\*The 1999 and 1998 balance sheets and net income statements have been restated as a result of the implementation of FRS 19 (Deferred Tax) in the Group's 2000 financial statements.

# Notes to the Reconciliation to US Accounting Principles

## 1 Significant differences between UK and US Accounting Principles

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

### Goodwill, 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 40 years. The Group evaluates the carrying value of its tangible and intangible assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount. An impairment loss is recognised when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows if the asset is expected to be held and used.

### Contingent consideration

Under UK GAAP, the Group provides for contingent consideration as a liability when it considers the likelihood of payment as probable. Under US GAAP, contingent consideration is not recognised until the liability is determined beyond reasonable doubt. At 31 December 2000, the Group's liabilities for vendor payments under UK GAAP totalled £302.3 million (1999: £172.4 million, 1998: £97.9 million). As these liabilities are represented by goodwill arising on acquisition, there is no net effect on shareholders' funds. In certain transactions the Group considers that there is a commercial need to tie in vendors to the businesses acquired however 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 2000 was £8.45.

### 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.



# Notes to the Reconciliation to US Accounting Principles continued

1 Significant differences between UK and US Accounting Principles continued

## 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

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

## Executive compensation

The Group adopted FRS 19 (Deferred Tax) during the year and, for UK GAAP, the Group now accounts for deferred tax in accordance with the policy described in the note on accounting policies in the financial statements. Under US GAAP such compensation is measured at the fair value of WPP common stock at the date the performance condition is met or the award vests with the employee. Differences occur as the WPP Share Ownership Plan acquires stock before the liability to the employee arises.

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

## Cash flows

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

## Shares owned by Employee Share Option Plan (ESOP)

Under UK GAAP, shares purchased by the ESOP are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, these shares are recorded at cost and deducted from share owners' equity.

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 material listed investments of the Group are considered to be 'available for sale' securities under US GAAP.

## 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. 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.
<b>Year ended 31 December 2000</b>		
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
<b>Year ended 31 December 1999</b>		
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
<b>Year ended 31 December 1998</b>		
Under UK GAAP	735,700,122	746,939,733
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 1998	–	4,115,097
Under US GAAP	735,700,122	751,054,830

## 3 Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards in the United States requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognised currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Statement 133, as amended by Statement 137, is effective for fiscal years beginning after 15 June 2000. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning 16 June 1998 and thereafter). Statement 133 cannot be applied retroactively. Statement 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after 31 December 1997.

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

# Five-year summary

	2000 £m	1999 Restated* £m	1998 Restated* £m	1997 Restated* £m	1996 Restated* £m
<b>Profit and loss</b>					
Turnover (gross billings)	<b>13,949.4</b>	9,345.9	8,000.1	7,287.3	7,084.0
Revenue	<b>2,980.7</b>	2,172.6	1,918.4	1,746.7	1,691.3
Operating profit	<b>378.0</b>	263.5	229.1	194.9	170.1
Profit on ordinary activities before taxation	<b>365.7</b>	255.4	212.8	177.4	153.3
Profit attributable to ordinary share owners	<b>244.7</b>	172.8	140.3	116.0	100.0
<b>Balance sheet</b>					
Fixed assets	<b>5,389.0</b>	1,313.9	942.9	564.0	534.4
Net current liabilities	<b>(529.4)</b>	(227.5)	(239.7)	(258.3)	(119.6)
Creditors: amounts falling due after more than one year	<b>(1,279.6)</b>	(652.5)	(401.5)	(221.5)	(281.7)
Provisions for liabilities and charges	<b>(145.9)</b>	(79.2)	(77.9)	(74.5)	(78.2)
Net assets	<b>3,434.1</b>	354.7	223.8	9.7	54.9
Net (debt)/funds	<b>(24.6)</b>	91.9	134.3	194.7	159.2
Average net debt	<b>(423.0)</b>	(206.0)	(143.0)	(115.0)	(145.0)
<b>Our people</b>					
Revenue per employee (£000)	<b>82.4</b>	78.4	75.0	76.2	79.9
Gross profit per employee (£000)	<b>75.7</b>	67.0	63.8	64.1	67.9
Operating profit per employee (£000)	<b>10.5</b>	9.5	9.0	8.5	8.0
Average headcount	<b>36,157</b>	27,711	25,589	22,909	21,166
<b>Share information</b>					
Basic earnings per ordinary share (net basis)	<b>29.3p</b>	22.9p	19.1p	15.8p	13.6p
Diluted earnings per share (net basis)	<b>28.4p</b>	22.5p	18.8p	15.7p	13.5p
Dividends per share	<b>3.75p</b>	3.1p	2.56p	2.13p	1.7p
Dividend cover <sup>(1)</sup>	<b>7.6</b>	7.3	7.3	7.4	7.9
Share price – high	<b>1,324p</b>	996p	470p	292p	254p
– low	<b>693p</b>	359p	200p	237p	157p
Market capitalisation at year-end (£m)	<b>9,631.2</b>	7,598.3	2,803.8	1,984.4	1,883.2

## Notes

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

\* The 1999-1996 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.



# Consolidated profit and loss account: euro illustration

## For the year ended 31 December 2000

	2000				
	Continuing operations* €m	Acquisitions (Young & Rubicam only) €m	Total €m	1999 €m	1998 €m
<b>Turnover (gross billings)</b>	20,063.0	2,853.1	22,916.1	14,207.6	11,817.0
Cost of sales	(15,756.7)	(2,262.7)	(18,019.4)	(10,904.8)	(8,983.3)
<b>Revenue</b>	4,306.3	590.4	4,896.7	3,302.8	2,833.7
Direct costs	(401.8)	–	(401.8)	(482.4)	(422.3)
<b>Gross profit</b>	3,904.5	590.4	4,494.9	2,820.4	2,411.4
Operating costs	(3,361.7)	(512.2)	(3,873.9)	(2,419.8)	(2,073.0)
<b>Operating profit</b>	542.8	78.2	621.0	400.6	338.4
Income from associates	58.1	4.3	62.4	41.5	23.8
<b>Profit on ordinary activities before interest and taxation</b>	600.9	82.5	683.4	442.1	362.2
Net interest payable and similar charges	(78.5)	(4.1)	(82.6)	(53.8)	(47.9)
<b>Profit on ordinary activities before taxation</b>	522.4	78.4	600.8	388.3	314.3
Tax on profit on ordinary activities			(180.2)	(116.5)	(98.9)
<b>Profit on ordinary activities after taxation</b>			420.6	271.8	215.4
Minority interests			(18.6)	(9.1)	(8.1)
<b>Profit attributable to ordinary share owners</b>			402.0	262.7	207.3
Ordinary dividends			(62.1)	(36.5)	(29.0)
<b>Retained profit for the year</b>			339.9	226.2	178.3
<b>Earnings per share (net basis)</b>					
Basic earnings per ordinary share			48.1¢	34.8¢	28.2¢
Diluted earnings per ordinary share			46.7¢	34.2¢	27.8¢
<b>Ordinary dividend per share</b>					
Interim dividend			1.97¢	1.52¢	1.24¢
Final dividend			4.19¢	3.19¢	2.54¢

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 (2000: €1.6428 = £1, 1999: €1.5202 = £1, 1998: €1.4771 = £1) and the rate in effect on 31 December for the balance sheet (2000: €1.5912 = £1, 1999: €1.6056 = £1, 1998: €1.4169 = £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.

\* The figures presented for continuing operations include 2000 acquisitions other than Young & Rubicam Inc. Aggregated figures for acquisitions were revenue of €721.0 million, operating profit of €101.0 million and PBIT of €109.1 million.

# Consolidated balance sheet: euro illustration

## As at 31 December 2000

	2000 €m	1999 Restated* €m	1998 Restated* €m
<b>Fixed assets</b>			
Intangible assets:			
Corporate brands	1,511.6	561.9	495.9
Goodwill	5,565.0	658.8	223.9
Tangible assets	620.9	315.8	236.2
Investments	877.5	573.0	380.0
	<b>8,575.0</b>	2,109.5	1,336.0
<b>Current assets</b>			
Stocks and work in progress	383.6	182.2	152.0
Debtors	3,470.4	1,715.4	1,305.1
Debtors within working capital facility:			
Gross debts	739.7	555.1	417.3
Non-returnable proceeds	(368.5)	(343.8)	(296.4)
	371.2	211.3	120.9
Cash at bank and in hand	1,698.8	974.6	600.6
	<b>5,924.0</b>	3,083.5	2,178.6
<b>Creditors: amounts falling due within one year</b>	<b>(6,766.4)</b>	(3,448.8)	(2,518.3)
<b>Net current liabilities</b>	<b>(842.4)</b>	(365.3)	(339.7)
<b>Total assets less current liabilities</b>	<b>7,732.6</b>	1,744.2	996.3
<b>Creditors: amounts falling due after more than one year</b>	<b>(2,036.1)</b>	(1,047.7)	(568.9)
<b>Provisions for liabilities and charges</b>	<b>(232.2)</b>	(127.2)	(110.4)
<b>Net assets/(liabilities)</b>	<b>5,464.3</b>	569.3	317.0
<b>Capital and reserves</b>			
Called up share capital	176.9	124.4	108.5
Share premium account	1,128.2	968.0	797.5
Shares to be issued	615.3	–	–
Merger reserve	4,185.2	194.7	170.7
Other reserves	(407.7)	(197.8)	(130.3)
Profit and loss account	(272.1)	(533.6)	(640.8)
<b>Equity share owners' funds</b>	<b>5,425.8</b>	555.7	305.6
Minority interests	38.5	13.6	11.4
<b>Total capital employed</b>	<b>5,464.3</b>	569.3	317.0

\* The 1999 and 1998 balance sheets have been restated as a result of the implementation of FRS 19 in the Group's 2000 financial statements. The resulting prior year adjustment is shown in note 24.

# Financial glossary

Term used in annual report	US equivalent or brief description
Advance corporation tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income (until 6 April 1999, when abolished)
Allotted	Issued
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Combined Code	The 'Principles of Good Governance' and the provisions of the 'Code of Best Practice' issued by the Hampel Committee on Corporate Governance and the London Stock Exchange
Creditors	Accounts payable
Creditors: amounts falling due after more than one year	Long-term debt
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Hampel Committee	UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
Profit attributable to ordinary share owners	Net income
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories
Tangible fixed assets	Property and equipment
Turnbull Report	Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange

# Auditors' report

## **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 2000, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Company Balance Sheet and the related notes (excluding foreign currency convenience translations). These financial statements have been prepared under the historical cost convention and the accounting policies set out therein. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors, as set out in the section on Directors' Remuneration and Interests.

## **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 statement, included in the Directors' Responsibilities section, 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 it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only Letter to Share Owners, the Operating and Financial Review and the Stewardship and Remuneration section. 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 as at 31 December 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## **Arthur Andersen**

Chartered Accountants and Registered Auditors  
1 Surrey Street  
London  
WC2R 2PS  
4 May 2001