

## Appendix I

## WPP GROUP PLC

## Preliminary results for the year ended 31 December 2002

## Unaudited preliminary consolidated profit &amp; loss account for the year ended 31 December 2002

	Notes	2002	2001		Constant Currency (Note 3)
		£m	£m	+/(-)%	+/(-)%
<b>Turnover (gross billings)</b>		18,028.7	20,886.9	(13.7)%	(10.9)%
<b>Cost of sales</b>		(14,120.4)	(16,865.2)	+16.3%	+13.7%
<b>Revenue</b>	4	3,908.3	4,021.7	(2.8)%	+0.7%
<b>Direct costs</b>		(218.2)	(232.0)	+5.9%	+3.3%
<b>Gross profit</b>		3,690.1	3,789.7	(2.6)%	+0.9%
Operating costs excluding goodwill		(3,239.9)	(3,269.4)	+0.9%	(2.8)%
Goodwill amortisation and impairment	9	(177.7)	(14.8)		
<b>Operating profit</b>		272.5	505.5	(46.1)%	(44.4)%
Income from associates		30.0	40.8	(26.5)%	(23.1)%
<b>Profit on ordinary activities before interest, taxation, fixed asset gains and write downs</b>		302.5	546.3	(44.6)%	(42.8)%
Profits on disposal of fixed assets	5	9.2	6.8	+35.3%	+35.3%
Amounts written off fixed asset investments	5	(19.9)	(70.8)	+71.9%	+71.9%
Net interest payable and similar charges on net borrowings		(79.6)	(67.5)	(17.9)%	(16.5)%
Net interest charges on defined benefit pension schemes		(6.8)	(3.8)	(78.9)%	(79.8)%
Net interest payable and similar charges		(86.4)	(71.3)	(21.2)%	(26.4)%
<b>Profit on ordinary activities before taxation</b>		205.4	411.0	(50.0)%	(48.3)%
Taxation on profit on ordinary activities	6	(103.4)	(126.1)	+18.0%	+18.9%
<b>Profit on ordinary activities after taxation</b>		102.0	284.9	(64.2)%	(62.0)%
Minority interests		(14.0)	(13.7)	(2.2)%	(4.3)%
<b>Profit attributable to ordinary share owners</b>		88.0	271.2	(67.6)%	(65.4)%
Ordinary dividends	7	(62.5)	(51.6)	+21.1%	+21.1%
<b>Retained profit for the year</b>		25.5	219.6	(88.4)%	(87.0)%
<b>PBIT<sup>1</sup></b>	4	480.2	561.1	(14.4)%	(11.8)%
<b>PBIT<sup>1</sup> margin</b>		<b>12.3%</b>	<b>14.0%</b>		
<b>PBT<sup>1</sup></b>		400.6	493.6	(18.8)%	(16.6)%
<b>Headline earnings per share<sup>2</sup></b>					
Basic earnings per ordinary share	8	25.5p	32.1p	(20.6)%	(16.6)%
Diluted earnings per ordinary share	8	24.9p	30.9p	(19.4)%	(15.8)%
<b>Standard earnings per share</b>					
Basic earnings per ordinary share	8	7.9p	24.6p	(67.9)%	(65.5)%
Diluted earnings per ordinary share	8	7.7p	23.7p	(67.5)%	(65.2)%

<sup>1</sup> PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write downs.  
PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write downs, and net interest charges on defined benefit pension schemes. The calculations of PBIT and PBT are presented in Appendix IV.

<sup>2</sup> Headline earnings per ordinary share excludes goodwill amortisation and impairment, fixed asset gains and write downs, and net interest charges on defined benefit pension schemes. This calculation is presented in Appendix IV.

## WPP GROUP PLC

Unaudited preliminary consolidated cash flow statement for  
the year ended 31 December 2002

	2002	2001
	£m	£m
<b>Reconciliation of operating profit to net cash inflow from operating activities:</b>		
Operating profit	272.5	505.5
Depreciation	116.6	109.9
Goodwill amortisation and impairment	177.7	14.8
Movements in working capital	213.1	(456.3)
<b>Net cash inflow from operating activities</b>	<b>779.9</b>	<b>173.9</b>
<b>Dividends received from associates</b>	<b>9.4</b>	<b>14.7</b>
<b>Returns on investments and servicing of finance</b>	<b>(78.2)</b>	<b>(56.4)</b>
<b>United Kingdom and overseas tax paid</b>	<b>(85.0)</b>	<b>(77.5)</b>
Purchase of tangible fixed assets	(100.5)	(118.1)
Purchase of own shares by ESOP Trust	(67.6)	(103.3)
Other movements	10.2	4.2
<b>Capital expenditure and financial investment</b>	<b>(157.9)</b>	<b>(217.2)</b>
Cash consideration for acquisitions	(317.3)	(692.8)
Cash/(overdrafts) acquired	62.8	(21.1)
Purchases of other investments	(26.1)	(43.2)
Proceeds from disposal of other investments	3.3	26.8
<b>Acquisitions and disposals</b>	<b>(277.3)</b>	<b>(730.3)</b>
<b>Equity dividends paid</b>	<b>(55.6)</b>	<b>(44.4)</b>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>	<b>135.3</b>	<b>(937.2)</b>
<b>Management of liquid resources</b>	<b>(113.6)</b>	<b>(76.8)</b>
Convertible bond issue proceeds	450.0	-
Eurobond issue proceeds	-	614.1
Reduction of drawings on bank loans	(239.3)	(175.3)
Financing and share issue costs	(12.9)	(8.8)
Proceeds from issue of shares	24.4	69.0
Share cancellations	(8.3)	-
<b>Net cash inflow from financing</b>	<b>213.9</b>	<b>499.0</b>
<b>Increase/(decrease) in cash and overdrafts for the year</b>	<b>235.6</b>	<b>(515.0)</b>
Translation difference	(0.4)	10.7
<b>Balance of cash and overdrafts at beginning of year</b>	<b>265.7</b>	<b>770.0</b>
<b>Balance of cash and overdrafts at end of year</b>	<b>500.9</b>	<b>265.7</b>
<b>Reconciliation of net cash flow to movement in net debt:</b>		
Increase/(decrease) in cash and overdrafts for the year	235.6	(515.0)
Cash outflow from increase in liquid resources	113.6	76.8
Cash inflow from increase in debt financing	(201.2)	(430.0)
Other movements	(8.8)	(1.1)
Translation difference	23.2	8.8
<b>Movement of net debt in the year</b>	<b>162.4</b>	<b>(860.5)</b>
Net debt at beginning of year	(885.1)	(24.6)
<b>Net debt at end of year (Note 13)</b>	<b>(722.7)</b>	<b>(885.1)</b>

# WPP GROUP PLC

## Unaudited preliminary consolidated balance sheet as at 31 December 2002

	Notes	2002 £m	2001 £m
<b>Fixed assets</b>			
Intangible assets:			
Corporate brands		950.0	950.0
Goodwill	9	4,407.0	4,439.9
Tangible assets		377.3	432.8
Investments	9	628.7	553.5
		6,363.0	6,376.2
<b>Current assets</b>			
Stocks and work in progress		271.6	236.9
Debtors	10	2,256.4	2,391.8
Trade debtors within working capital facility:			
Gross debts		385.7	331.0
Non-returnable proceeds		<u>(217.4)</u>	<u>(82.5)</u>
		168.3	248.5
Current asset investments (short-term bank and escrow deposits)		190.4	76.8
Cash at bank and in hand		689.1	585.6
		3,575.8	3,539.6
<b>Creditors: amounts falling due within one year</b>	11	(4,100.1)	(4,322.0)
<b>Net current liabilities</b>		(524.3)	(782.4)
<b>Total assets less current liabilities</b>		5,838.7	5,593.8
<b>Creditors: amounts falling due after more than one year (including convertible loan notes)</b>	12	(1,837.5)	(1,711.5)
<b>Provisions for liabilities and charges</b>		(102.0)	(106.1)
<b>Net assets excluding pension provision</b>		3,899.2	3,776.2
Pension provision		(184.8)	(135.3)
<b>Net assets including pension provision</b>		3,714.4	3,640.9
<b>Capital and reserves</b>			
Called up share capital		115.7	115.0
Share premium account		836.6	805.2
Shares to be issued		195.7	238.6
Merger reserve		2,869.3	2,824.7
Other reserves		(254.3)	(336.8)
Profit and loss account		(87.4)	(46.9)
<b>Equity share owners' funds</b>		3,675.6	3,599.8
Minority interests		38.8	41.1
<b>Total capital employed</b>		3,714.4	3,640.9

## WPP GROUP PLC

### Unaudited preliminary consolidated statement of total recognised gains and losses for the year ended 31 December 2002

	2002	2001
	£m	£m
Profit for the year	88.0	271.2
Exchange adjustments on foreign currency net investments	82.2	(80.6)
Actuarial loss on defined benefit pension schemes in accordance with FRS17 (Retirement Benefits)	(52.8)	(43.0)
<b>Total recognised gains and losses relating to the year</b>	<b>117.4</b>	<b>147.6</b>

### Unaudited preliminary reconciliation of movements in consolidated share owners' funds for the year ended 31 December 2002

	2002	2001
	£m	£m
Profit for the year	88.0	271.2
Ordinary dividends payable	(62.5)	(51.6)
	25.5	219.6
Exchange adjustments on foreign currency net investments	82.2	(80.6)
Ordinary shares issued in respect of acquisitions	8.2	64.7
Share issue costs charged to share premium account or merger reserve	(3.4)	(1.0)
Other share issues	24.4	68.2
Share cancellations	(8.3)	-
Actuarial loss on defined benefit schemes	(52.8)	(43.0)
Write back of goodwill on disposal of interest in associate undertaking	-	2.0
<b>Net additions to equity share owners' funds</b>	<b>75.8</b>	<b>229.9</b>
Opening equity share owners' funds	3,599.8	3,369.9
<b>Closing equity share owners' funds</b>	<b>3,675.6</b>	<b>3,599.8</b>

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (Notes 1-15)

#### 1. Basis of accounting

The unaudited preliminary consolidated financial statements are prepared under the historical cost convention.

#### 2. Accounting policies

The unaudited preliminary consolidated financial statements comply with relevant accounting standards and have been prepared using accounting policies set out on pages 58 and 59 of the Group's 2001 Annual Report and Accounts. No changes have been made to the accounting policies since this time.

The policies set out in the 2001 Annual Report and Accounts are in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP).

#### Statutory Information and Audit Review

The financial information for the years ended 31 December 2002 or 2001 does not constitute the company's statutory accounts. The financial information for the year ended 31 December 2001 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The previous auditors reported on those accounts; their report was unqualified and did not contain a statement under s237 (2) or (3) Companies Act 1985. The statutory accounts for the year ended 31 December 2002 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting. The audit report for the year ended 31 December 2002 has yet to be signed.

The preliminary announcement was approved by the board of directors on 23 February 2003.

#### 3. Currency conversion

The 2002 unaudited preliminary consolidated profit and loss account is prepared using, among other currencies, an average exchange rate of US\$1.5036 to the pound (2001:US\$1.4401). The unaudited preliminary consolidated balance sheet as at 31 December 2002 has been prepared using the exchange rate on that day of US\$1.6100 to the pound (2001: US\$1.4542).

The unaudited preliminary consolidated profit and loss account and balance sheet are presented in Euros in Appendix II for illustrative purposes. The unaudited preliminary consolidated profit and loss account has been prepared using an average exchange rate of €1.5910 to the pound (2001: €1.6086). The unaudited preliminary consolidated balance sheet at 31 December 2002 has been prepared using the exchange rate on that day of €1.5345 to the pound (2001: €1.6322).

The constant currency percentage changes shown on the face of the profit and loss account have been calculated by applying 2002 exchange rates to the results for 2001 and 2002.

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## Notes to the unaudited preliminary consolidated financial statements (continued)

### 4. Segmental analysis

Reported contributions by geographical area were as follows:

	2002	2001	+/(-)%
	£m	£m	
<b>Revenue</b>			
United Kingdom	619.2	627.3	(1.3)%
United States	1,655.0	1,763.1	(6.1)%
Continental Europe	929.6	870.9	+6.7%
Canada, Asia Pacific, Latin America, Africa & Middle East	704.5	760.4	(7.4)%
	3,908.3	4,021.7	(2.8)%

#### PBIT<sup>1</sup>

United Kingdom	67.5	73.9	(8.7)%
United States	239.2	257.6	(7.1)%
Continental Europe	99.7	119.7	(16.7)%
Canada, Asia Pacific, Latin America, Africa & Middle East	73.8	109.9	(32.8)%
	480.2	561.1	(14.4)%

Reported contributions by operating sector were as follows:

	2002	2001	+/(-)%
	£m	£m	
<b>Revenue</b>			
Advertising and Media investment management	1,810.0	1,841.5	(1.7)%
Information and consultancy	598.6	590.3	+1.4%
Public relations and public affairs	447.6	502.1	(10.9)%
Branding and identity, Healthcare and Specialist communications	1,052.1	1,087.8	(3.3)%
	3,908.3	4,021.7	(2.8)%

#### PBIT<sup>1</sup>

Advertising and Media investment management	274.7	319.4	(14.0)%
Information and consultancy	42.4	57.6	(26.4)%
Public relations and public affairs	46.5	48.3	(3.7)%
Branding and identity, Healthcare and Specialist communications	116.6	135.8	(14.1)%
	480.2	561.1	(14.4)%

<sup>1</sup>PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write downs. The calculation of PBIT is presented in Appendix IV.

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

#### 5. Fixed asset gains and write downs

The profits on disposal of fixed assets comprise:

	2002	2001
	£m	£m
Profits on disposal of freehold properties	3.6	-
Profits on disposal of investments	5.6	6.8
	9.2	6.8

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

Amounts written off fixed asset investments of £19.9 million (2001: £70.8 million) relate to write downs on certain non-core minority investments in new media companies and other technology ventures in light of the continuing decline in technology equity valuations. Following these write downs, investments in which the Group has less than a 20% interest amount to £24.9 million.

These transactions did not have a material effect on the Group's tax charge (2001: £8.6 million charge).

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

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

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

#### 6. Taxation

The Group tax rate on profit on ordinary activities before taxation, amortisation, impairment, fixed asset gains and write downs is 26% (2001: 27%). The tax charge comprises:

	2002	2001
	£m	£m
Total current tax	93.8	122.1
Total deferred tax	(1.5)	(5.5)
Share of associates tax	11.1	16.4
	103.4	133.0
Tax on investment gains	-	(6.9)
Total tax on profits	103.4	126.1

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### Notes to the unaudited preliminary consolidated financial statements (continued)

#### 7. Ordinary dividends

The Board has recommended a final dividend of 3.67p (2001: 3.06p) per ordinary share. In addition to the interim dividend paid of 1.73p (2001: 1.44p) per ordinary share, this makes a total for the year of 5.40p (2001: 4.50p) per ordinary share. The final dividend is expected to be paid on 7 July 2003 to share owners on the register at 6 June 2003.

	2002	2001
<b>Ordinary dividend per share -</b>		
interim	1.73p	1.44p
final	3.67p	3.06p
	5.40p	4.50p
<b>Ordinary dividend per ADR<sup>1</sup> -</b>		
interim	13.0¢	10.4¢
final	27.6¢	22.0¢
	40.6¢	32.4¢

<sup>1</sup> These figures have been translated for convenience purposes only, using the profit and loss exchange rate shown in note 3.

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.

#### 8. Earnings per share

Basic and diluted earnings per share have been calculated in accordance with FRS14 "Earnings per Share".

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

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

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



## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

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

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

<b>Earnings per ADR</b>	<b>2002</b>	<b>2001</b>	<b>+/(-)%</b>	<b>Constant Currency (Note 3) +/(-)%</b>
<b>Headline earnings per ADR<sup>1,2</sup></b>				
Basic earning per ADR	\$1.92	\$2.31	(16.9)%	(16.6)%
Diluted earnings per ADR	\$1.87	\$2.22	(15.8)%	(15.8)%
<b>Standard earnings per ADR<sup>1</sup></b>				
Basic earnings per ADR	\$0.59	\$1.77	(66.7)%	(65.5)%
Diluted earnings per ADR	\$0.58	\$1.71	(66.1)%	(65.2)%

<sup>1</sup> These figures have been translated for convenience purposes only, using the profit and loss exchange rate shown in note 3. 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.

<sup>2</sup> Headline earnings per ADR excludes goodwill amortisation and impairment, fixed asset gains and write downs, and net interest charges on defined benefit pension schemes.

## 9. Goodwill and acquisitions

During the year, the Group charged £32.0 million (2001: £14.8 million) of goodwill amortisation and £145.7 million (2001: £Nil) of goodwill impairment to the profit and loss account, a total of £177.7 million (2001: £14.8 million). The impairment charge of £145.7 million represents 3.2% of goodwill shown in the balance sheet at the start of the year.

The impairment charge relates to a number of under-performing businesses in the information and consultancy, and branding and identity, healthcare and specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill. £120.6 million (more than 80%) of the impairment charge relates to goodwill that was previously being amortised.

The Group conducted its impairment review of goodwill in accordance with FRS 11 (Impairment of fixed assets and goodwill). This included an assessment of the recoverability of goodwill relating to Young & Rubicam and mediaedge:cia using medium and long-term business plans. For both businesses there was no indication of an impairment.

The directors continue to assess the useful life of goodwill arising on acquisitions. Gross goodwill of £572.3 million is subject to amortisation over periods of between 10 and 20 years.

Goodwill on subsidiary undertakings decreased by £32.9 million in the year. Other than amortisation and impairment this includes both goodwill arising on acquisitions completed in the year and also adjustments to goodwill relating to acquisitions completed in prior years. Acquisitions of associate undertakings gave rise to a further £10.2 million of goodwill, which is included in investments.

These acquisitions do not have a significant impact on the Group's results for the year ended 31 December 2002.

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

Cash paid in respect of acquisitions was £317.3 million (2001: £692.8 million). This includes £141.2 million of initial cash consideration, £82.4 million of earnout consideration resulting from acquisitions in prior years and £93.7 million of loan note redemptions.

Future anticipated payments to vendors in respect of earnouts, totalled £237.8 million (2001: £288.2 million), based on the directors' best estimates of future obligations, which are dependent on the future performance of the interests acquired and assume the operating companies improve profits in line with directors' estimates.

#### 10. Debtors

The following are included in debtors:

	2002	2001
	£m	£m
Trade debtors outside working capital facility	1,753.0	1,840.5
Prepayments and accrued income	122.8	126.0
Deferred tax	61.6	61.5
Other debtors	319.0	363.8
	2,256.4	2,391.8

The deferred tax asset is regarded as recoverable since, based on all available evidence, including forecasts of profit, it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### 11. Creditors: amounts falling due within one year

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

	2002	2001
	£m	£m
Bank loans and overdrafts	199.7	319.9
Trade creditors	2,477.8	2,506.2
Corporate income tax payable	29.9	51.3
Deferred income	315.0	322.2
Earnouts (note 9)	73.6	103.1
Loan notes due to vendors	27.3	61.5
Other creditors and accruals	976.8	957.8
	4,100.1	4,322.0

Overdraft balances included within bank loans and overdrafts amount to £188.2 million (2001: £319.9 million).

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

#### 12. Creditors: amounts falling due after more than one year

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

	<b>2002</b>	<b>2001</b>
	£m	£m
Corporate bonds, convertible loan notes and bank loans	1,402.5	1,227.6
Corporate income tax payable	215.7	222.2
Earnouts (note 9)	164.2	185.1
Other creditors and accruals	55.1	76.6
	<b>1,837.5</b>	<b>1,711.5</b>

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

	<b>2002</b>	<b>2001</b>
	£m	£m
Within one year	73.6	103.1
Between 1 and 2 years	75.9	48.9
Between 2 and 3 years	20.8	60.0
Between 3 and 4 years	36.5	25.3
Between 4 and 5 years	29.0	43.3
Over 5 years	2.0	7.6
	<b>237.8</b>	<b>288.2</b>

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

	<b>2002</b>	<b>2001</b>
	£m	£m
Within one year	199.7	319.9
Between 1 and 2 years	227.4	221.7
Between 2 and 3 years	302.3	212.0
Between 3 and 4 years	-	334.0
Between 4 and 5 years	420.1	-
Over 5 years	452.7	459.9
	<b>1,602.2</b>	<b>1,547.5</b>

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

#### 13. Net debt

	2002	2001
	£m	£m
Cash at bank and in hand	689.1	585.6
Current asset investments	190.4	76.8
Bank loans and overdrafts due within one year (note 11)	(199.7)	(319.9)
Corporate bond and loans due after one year (note 12)	(1,402.5)	(1,227.6)
<b>Net debt</b>	<b>(722.7)</b>	<b>(885.1)</b>

During the year, the Group completed the issue of £450 million of 2% convertible bonds due April 2007. Net proceeds of the offering were used to reduce drawings on credit facilities.

Current asset investments represents cash on deposit with a maturity of greater than 24 hours.

There are no investor put options on any outstanding debt instruments.

#### 14. Contingent liabilities in respect of option agreements

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

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

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

## WPP GROUP PLC

### Notes to the unaudited preliminary consolidated financial statements (continued)

#### 15. Share options – illustrative charge

Appendix III illustrates the impact on WPP were it to adopt an approach to expensing the weighted average fair value of options consistent with current United States transitional guidelines under the prospective adoption method contained within FAS 148, adopting a Black Scholes valuation model. This would give rise to a charge to operating profit of £5.0 million (£4.3 million after taxation) for the year ended 31 December 2002 in respect of executive share options granted in 2002.

On a proforma basis, had WPP adopted a policy of charging the weighted average fair value of options to the profit and loss account over the vesting period (three years) of each options grant, adopting a Black Scholes basis of valuation, then the resulting charge to operating profit would be £22.4 million (£20.0 million after taxation or 7.1% of headline earnings) for the year ended 31 December 2002, (£9.9 million after taxation or 3.3% of headline earnings for the year ended 31 December 2001).

The following assumptions have been made in determining the fair value of options granted in the year:

UK Risk-free rate	4.51%
US Risk-free rate	3.01%
Expected life	48 months
Expected volatility	45%
Dividend yield	1.0%

## Appendix II

## WPP GROUP PLC

## Preliminary results for the year ended 31 December 2002

Unaudited preliminary consolidated profit & loss account for the year ended 31 December 2002  
Presented in Euros for illustrative purposes only<sup>3</sup>

	2002	2001
	€m	€m
<b>Turnover (gross billings)</b>	28,683.7	33,598.7
<b>Costs of sales</b>	(22,465.6)	(27,129.4)
<b>Revenue</b>	6,218.1	6,469.3
<b>Direct Costs</b>	(347.2)	(373.2)
<b>Gross Profit</b>	5,870.9	6,096.1
Operating costs excluding goodwill	(5,154.7)	(5,259.2)
Goodwill amortisation and impairment	(282.7)	(23.8)
<b>Operating profit</b>	433.5	813.1
Income from associates	47.7	65.6
<b>Profit on ordinary activities before interest, taxation, fixed asset and write-downs</b>	481.2	878.7
Profits on disposal of fixed assets	14.6	10.9
Amounts written off fixed asset investments	(31.7)	(113.9)
Net interest payable and similar charges on net borrowings	(126.6)	(108.6)
Net interest charges on defined benefit pension schemes	(10.8)	(6.1)
Net interest payable and similar charges	(137.4)	(114.7)
<b>Profit on ordinary activities before taxation</b>	326.7	661.0
Taxation on profit on ordinary activities	(164.5)	(202.8)
<b>Profit on ordinary activities after taxation</b>	162.2	458.2
Minority interests	(22.3)	(22.0)
<b>Profit attributable to ordinary share owners</b>	139.9	436.2
Ordinary dividends	(99.4)	(83.0)
<b>Retained profit for the year</b>	40.5	353.2
<b>PBIT<sup>1</sup></b>	764.0	902.5
<b>PBIT<sup>1</sup> margin</b>	12.3%	14.0%
<b>PBT<sup>1</sup></b>	637.3	793.9
<b>Headline earnings per share<sup>2</sup></b>		
Basic earnings per ordinary share	40.6¢	51.6¢
Diluted earnings per ordinary share	39.6¢	49.7¢
<b>Standard earnings per share</b>		
Basic earnings per ordinary share	12.6¢	39.6¢
Diluted earnings per ordinary share	12.3¢	38.1¢

<sup>1</sup> PBIT: Profit on ordinary activities before interest, taxation, excluding goodwill amortisation and impairment, fixed asset gains and write downs.  
PBT: Profit on ordinary activities before taxation, excluding goodwill amortisation and impairment, fixed asset gains and write downs, and net interest charges on defined benefit pension schemes.

<sup>2</sup> Headline earnings per ordinary share exclude goodwill amortisation and impairment, investment gains and write downs, and net interest charges on defined benefit pension schemes.

<sup>3</sup> These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in Note 3.

## WPP GROUP PLC

**Unaudited preliminary consolidated balance sheet as at 31 December 2002**  
**Presented in Euros for illustrative purposes only<sup>1</sup>**

	<b>2002</b>	<b>2001</b>
	€m	€m
<b>Fixed assets</b>		
Intangible assets:		
Corporate brands	1,457.8	1,550.6
Goodwill	6,762.5	7,246.8
Tangible assets	579.0	706.4
Investments	964.7	903.4
	9,764.0	10,407.2
<b>Current assets</b>		
Stocks and work in progress	416.8	386.7
Debtors	3,462.4	3,903.9
Trade debtors within working capital facility:		
Gross debts	591.9	540.3
Non-returnable proceeds	<u>(333.6)</u>	<u>(134.7)</u>
	258.3	405.6
Current asset investments (short-term bank and escrow deposits)	292.2	125.4
Cash at bank and in hand	1,057.4	955.8
	5,487.1	5,777.4
<b>Creditors: amounts falling due within one year</b>	(6,291.6)	(7,054.4)
<b>Net current liabilities</b>	(804.5)	(1,277.0)
<b>Total assets less current liabilities</b>	8,959.5	9,130.2
<b>Creditors: amounts falling due after more than one year</b> (including convertible loan notes)	(2,819.7)	(2,793.5)
<b>Provisions for liabilities and charges</b>	(156.5)	(173.2)
<b>Net assets excluding pension provision</b>	5,983.3	6,163.5
Pension provision	(283.6)	(220.8)
<b>Net assets including pension provision</b>	5,699.7	5,942.7
<b>Capital and reserves</b>		
Called up share capital	177.5	187.7
Share premium account	1,279.9	1,314.2
Shares to be issued	300.3	389.4
Merger reserve	4,406.8	4,610.5
Other reserves	(390.2)	(549.6)
Profit and loss account	(134.1)	(76.6)
<b>Equity share owners' funds</b>	5,640.2	5,875.6
Minority interests	59.5	67.1
<b>Total capital employed</b>	5,699.7	5,942.7

<sup>1</sup> These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in Note 3.

## Appendix III

## WPP GROUP PLC

To present the impact of US transitional guidelines on the expensing of share options, for illustrative purposes only  
Unaudited preliminary pro forma consolidated profit and loss account for the year ended 31 December 2002

	2002	2001
	£m	£m
<b>Turnover (gross billings)</b>	18,028.7	20,886.9
<b>Cost of sales</b>	(14,120.4)	(16,865.2)
<b>Revenue</b>	3,908.3	4,021.7
<b>Direct costs</b>	(218.2)	(232.0)
<b>Gross Profit</b>	3,690.1	3,789.7
Operating costs excluding goodwill	(3,239.9)	(3,269.4)
Fair value of share options	(5.0)	-
Goodwill amortisation and impairment	(177.7)	(14.8)
<b>Operating profit</b>	267.5	505.5
Income from associates	30.0	40.8
<b>Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs</b>	297.5	546.3
Profits on disposal of fixed assets	9.2	6.8
Amounts written off fixed asset investments	(19.9)	(70.8)
Net interest payable and similar charges on net borrowings	(79.6)	(67.5)
Net interest charges on defined benefit pension schemes	<u>(6.8)</u>	<u>(3.8)</u>
Net interest payable and similar charges	(86.4)	(71.3)
<b>Profit on ordinary activities before taxation</b>	200.4	411.0
Taxation on profit on ordinary activities	(102.7)	(126.1)
<b>Profit on ordinary activities after taxation</b>	97.7	284.9
Minority interests	(14.0)	(13.7)
<b>Profit attributable to ordinary share owners</b>	83.7	271.2
Ordinary dividends	(62.5)	(51.6)
<b>Retained profit for the year</b>	21.2	219.6
<b>PBIT<sup>1</sup></b>	475.2	561.1
<b>PBIT<sup>1</sup> margin</b>	<b>12.2%</b>	<b>14.0%</b>
<b>PBT<sup>1</sup></b>	395.6	493.6
<b>Headline earnings per share<sup>2</sup></b>		
Basic earnings per ordinary share	25.1p	32.1p
Diluted earnings per ordinary share	24.5p	30.9p
<b>Standard earnings per share</b>		
Basic earnings per ordinary share	7.5p	24.6p
Diluted earnings per ordinary share	7.4p	23.7p
<b>Headline earnings per ADR<sup>2,3</sup></b>		
Basic earnings per ADR	\$1.89	\$2.31
Diluted earnings per ADR	\$1.84	\$2.22
<b>Standard earnings per ADR<sup>3</sup></b>		
Basic earnings per ADR	\$0.56	\$1.77
Diluted earnings per ADR	\$0.56	\$1.71

<sup>1</sup> PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write downs.

PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment, fixed asset gains and write downs, and net interest charges on defined benefit pension schemes.

<sup>2</sup> Headline earnings per ordinary share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write downs and net interest charges on defined benefit pension schemes.

<sup>3</sup> These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in Note 3.



## Appendix IV

## WPP GROUP PLC

**Reconciliation of profit on ordinary activities before interest, taxation,  
fixed asset gains and write downs to PBIT for the year ended 31 December 2002**

	2002	2001
	£m	£m
<b>Profit on ordinary activities before interest, taxation, fixed asset gains and write downs</b>	<b>302.5</b>	<b>546.3</b>
Goodwill amortisation and impairment	177.7	14.8
<b>PBIT</b>	<b>480.2</b>	<b>561.1</b>
Net interest payable and similar charges	86.4	71.3
<b>Interest cover on PBIT</b>	<b>5.6 times</b>	<b>7.9 times</b>

	2002	2001
	£m	£m
<b>Interest cover on PBIT (excluding FRS17 interest)</b>		
PBIT	480.2	561.1
Net interest payable and similar charges on net borrowings	79.6	67.5
<b>Interest cover (excluding FRS17 interest)</b>	<b>6.0 times</b>	<b>8.3 times</b>

**Reconciliation of profit on ordinary activities before taxation  
to PBT and headline earnings for the year ended 31 December 2002**

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

# WPP GROUP PLC

## Segmental margin analysis

Reported margins by geographical area were as follows:

	Revenue	PBIT <sup>1</sup>	Margin (%)
	£m	£m	
United Kingdom	619.2	67.5	10.9%
United States	1,655.0	239.2	14.5%
Continental Europe	929.6	99.7	10.7%
Canada, Asia Pacific, Latin America, Africa & Middle East	704.5	73.8	10.5%
	3,908.3	480.2	12.3%

Reported margins by operating sector were as follows:

	Revenue	PBIT <sup>1</sup>	Margin (%)
	£m	£m	
Advertising and Media investment management	1,810.0	274.7	15.2%
Information and consultancy	598.6	42.4	7.1%
Public relations and public affairs	447.6	46.5	10.4%
Branding and identity, Healthcare and Specialist communications	1,052.1	116.6	11.1%
	3,908.3	480.2	12.3%

Reported margins before and after income from associates were as follows:

	Margin (%)	2002	Margin (%)	2001
		£m		£m
<b>Revenue</b>		3,908.3		4,021.7
<b>PBIT</b>	<b>12.3%</b>	480.2	<b>14.0%</b>	561.1
Income from associates		30.0		40.8
<b>PBIT excluding income from associates</b>	<b>11.5%</b>	<b>450.2</b>	<b>12.9%</b>	<b>520.3</b>

<sup>1</sup>PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write downs. The calculation of PBIT is presented above.

# WPP GROUP PLC

## GLOSSARY AND BASIS OF PREPARATION

### **Constant currency**

The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying 2002 exchange rates to local currency reported results for the current and prior year. This gives a US dollar – denominated income statement and balance sheet which exclude any variances attributable to foreign exchange rate movements.

### **Pro forma ('like for like')**

Pro forma comparisons are calculated as follows: current year actual results (which include acquisitions from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions for the commensurate period in the prior year. The Group uses the terms 'pro forma' and 'like for like' interchangeably.

### **Average net debt**

Average net debt is calculated as the average daily net bank borrowings of the Group, derived from the Group's automated banking system. Net debt at a period end is calculated as the sum of the net bank borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet.