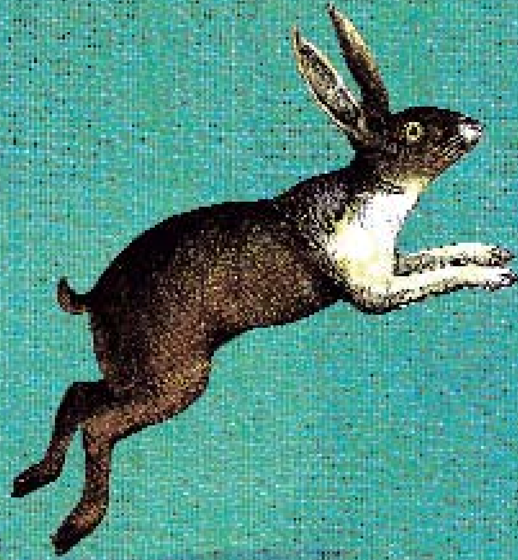
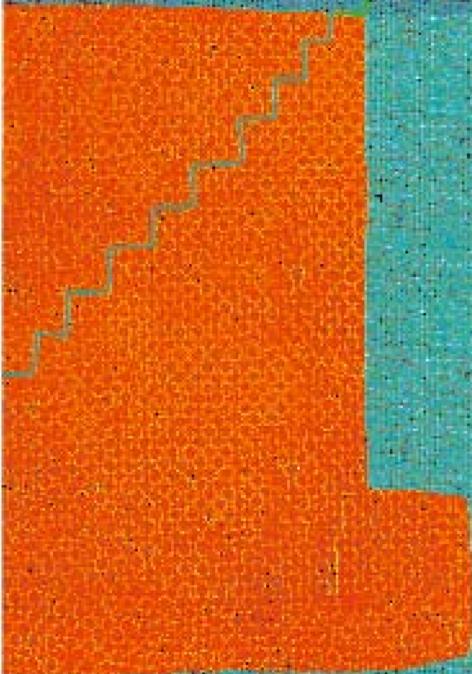
Annual Report and Accounts 2004





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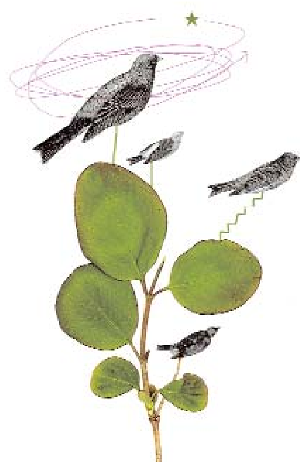

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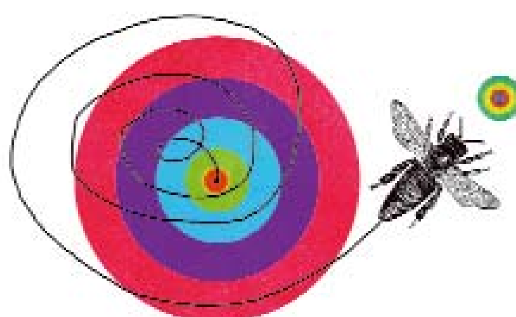


Current and historical financial information, including trading statements, news releases and presentations are available online at **www.wppinvestor.com**

You can receive WPP annual reports, financial statements and press releases by e-mail. To register, go to **www.wppinvestor.com** and follow the link to 'e-mail services'.

The fast read

For a quick, pre-digested, highly-compressed version of this Annual Report: read the next six pages. The full story starts on page 8. Please read that, too.

Who we are

WPP is one of the world's largest communications services groups, made up of leading companies in:

- Advertising
- Media investment management
- Information, insight & consultancy
- Public relations & public affairs
- Branding & identity
- Healthcare communications
- Direct, promotion & relationship marketing
- Specialist communications

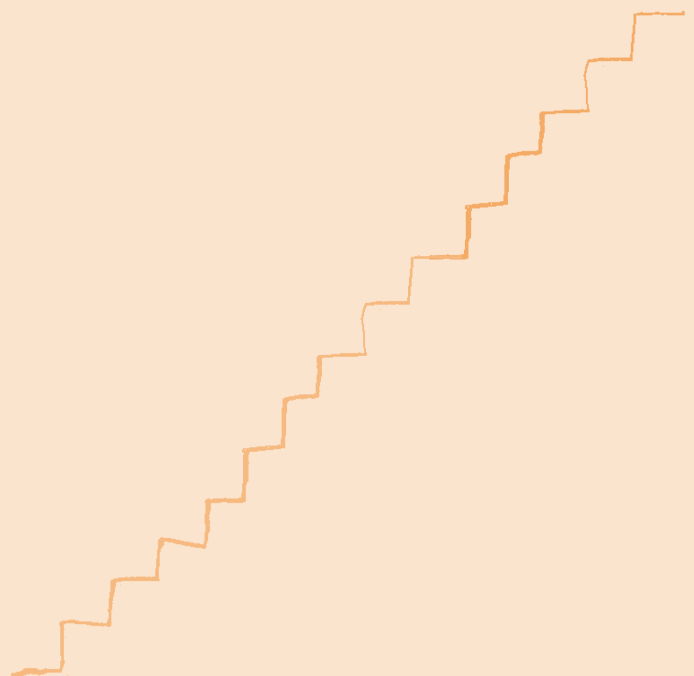
Collectively, the Group has 84,000* people working in over 2,000 offices in 106 countries.

WPP companies provide communications services to clients worldwide including more than 300 of the Fortune Global 500; over one-half of the NASDAQ 100 and over 30 of the Fortune e-50.

Our companies work with over 330 clients in three or more disciplines. More than 230 clients are served in four disciplines; these clients account for around 50% of Group revenues. The Group also works with nearly 200 clients in six or more countries.

Our companies and their websites are listed on pages 10 and 11.

* Including associates.



Why we exist

Our mission

**To develop and manage talent;
to apply that talent,
throughout the world,
for the benefit of clients;
to do so in partnership;
to do so with profit.**

Within the WPP Group, our clients have access to companies with all the necessary marketing and communications skills; companies with strong and distinctive cultures of their own; famous names, many of them.

WPP, the parent company, complements these companies in three distinct ways.

1 First, it relieves them of much administrative work. Financial matters (such as planning, budgeting, reporting, control, treasury, tax, mergers, acquisitions, investor relations) are co-ordinated centrally. For the operating companies, every administrative hour saved is an extra hour to be devoted to the pursuit of professional excellence.

2 Secondly, the parent company encourages and enables operating companies of different disciplines to work together; both for the benefit of clients and for the job satisfaction of our people. In the management of talent – including recruitment and training; in property management, procurement, information technology and knowledge sharing, the parent company plays an across-the-Group role.

3 And finally – a relatively recent development, this – WPP itself can function as the 21st century equivalent of the full-service agency. For a minority of clients, predominantly those with a vast geographical spread and a need for marketing services ranging from advertising through design and website construction to research and internal communications, WPP can act as a portal to provide a single point of contact and accountability.

Read more about our role on page 12.

What we think

The Advertising and Marketing Services Industry:
Complete recovery from the internet bust of 2000 and strong base for growth

WPP CEO Martin Sorrell believes that with recessionary forces abating in 2003 and quadrennial forces driving the industry to new highs in 2004, the short-term picture for the communications services industry has improved. 2005 should show more improvement. The next quadrennial cycle of 2005-2008 looks stronger, particularly driven by Asian growth and the Beijing Olympics.

The immediate issues of government overspending, consolidation among clients, media owners, retailers and agencies, increasing trade and price promotion, fees, procurement and outsourcing, media fragmentation and super-agencies all bring opportunities as well as threats.

In the longer term, advancing Americanisation and the growth of Asia Pacific, overcapacity and the shortage of human capital, the web, the demand for internal communications and retail concentration should together underline and assure the importance of our industry and its constituent parts, advertising and marketing services.

Martin Sorrell's article begins on page 64.

Why is a Good Insight Like a Refrigerator?

"High-potency insights, because of their immediacy – because they evoke as well as inform – behave like the best viral ads on the internet. They are infectious; we only have to hear them once to remember them, to apply them, to pass them on to others. By contrast, the low-potency insight sits there sullenly on its PowerPoint slide, moving absolutely nobody to enlightenment, let alone action."

Jeremy Bullmore's essay can be read in full on pages 80 to 83.

How we're doing

Financial summary*

	2004	2003	Change %
Turnover (billings)	**£19,598m**	£18,621m	+5.2
Revenue	**£4,300m**	£4,106m	+4.7
Headline EBITDA[1]	**£709m**	£661m	+7.3
Headline operating profit[2]	**£560m**	£493m	+13.6
Reported operating profit	**£485m**	£415m	+16.7
Headline PBIT[2]	**£608m**	£534m	+13.9
Headline PBIT margin	**14.1%**	13.0%	+1.1
Headline PBT[2]	**£547m**	£473m	+15.4
Reported PBT	**£457m**	£350m	+30.5
Headline diluted earnings per share[4]	**32.3p**	29.0p	+11.4
Headline diluted earnings per ADR[3,4]	**$2.96**	$2.37	+24.9
Ordinary dividend per share	**7.78p**	6.48p	+20.0
Ordinary dividend per ADR[3]	**71.3¢**	53.0¢	+34.5
Net debt at year-end	**£300m**	£362m	-17.1
Average net debt[5]	**£810m**	£1,222m	-33.7
Ordinary share price at year-end	**573.0p**	548.5p	+4.5
ADR price at year-end	**$54.67**	$49.30	+10.9
Market capitalisation at year-end	**£6,792m**	£6,513m	+4.3

Notes

*These figures have been prepared under UK GAAP.

[1] Headline EBITDA: profit on ordinary activities before taxation, net interest payable and similar charges of £70.7 million (2003: £71.6 million), depreciation of £103.4 million (2003: £127.5 million), and goodwill amortisation and impairment of £78.5 million (2003: £112.0 million).

[2] Headline operating profit: Operating profit before goodwill amortisation and impairment of subsidiaries of £75.0 million (2003: £77.7 million).
Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment of £78.5 million (2003: £112.0 million), fixed asset gains of £3.0 million (2003: £nil) and write-downs of £5.0 million (2003: £nil).
Headline 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 of £9.5 million (2003: £11.5 million). The calculation of Headline PBIT and Headline PBT is set out in note 28 of the financial statements.

[3] One American Depositary Receipt represents five ordinary shares. These figures have been translated for convenience purposes only using the profit and loss exchange rates shown on page 134. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

[4] Headline diluted earnings per share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. Earnings per share is disclosed in note 8 of the financial statements.

[5] Average net debt is defined on page 170.

Key performance indicators

Revenues were up almost 5% to £4.3 billion. Operating margin was up 1.1 margin points to 14.1%. Headline PBIT – that is before interest tax, goodwill amortisation and impairment, fixed asset gains and investment write-downs – was up almost 14% to £608 million.

Headline profit before tax was up over 15% to £547 million. Profit before tax was up over 30% to £457 million. Headline diluted earnings per share were up over 11% to 32.3p and reported diluted earnings per share up over 37% to 25.0p.

Total share owner return improved with your share price rising by over 4% to 573.0p over the year and dividends rising 20% to 7.78p.

Based on constant currency comparisons, on a like-for-like basis, revenues were up over 4% for the year, up 2% in the first half and accelerating to 6% in the second half. This appears to have been at or above the growth in the worldwide market, with the Group maintaining or slightly increasing market share.

Headline PBIT margins rose to 14.1% from 13.0%, ahead of our objective of 13.8%.

Sector and geographic performance

By sector, Media investment management led the way, together with Healthcare and Specialist communications, the latter particularly in direct, interactive and internet. However, good performances were also registered by Advertising, Information, insight & consultancy and Branding & identity. Public relations & public affairs, the slowest sector to recover from the recession in 2000, finally contributed a strong year.

Marketing services rose to 54% of our revenues in 2004 from 53% in the previous year.

By geography, Asia Pacific, Africa and the Middle East, Latin America and Central and Eastern Europe led the way. The only laggard was Western Europe, particularly France, Germany and the UK, although even these three improved in the second half of the year. As a result, markets outside North America grew to around 61% of our revenues, as compared to 58% in the previous year and 56% the year before that.

Cash flow

For the second year in a row, we more than achieved our recently introduced cash flow objective of covering all acquisition payments and share re-purchases, and managed to cover dividend payments too.

Future objectives

We will continue to focus on our key objectives – improving operating profits and margins, increasing cost flexibility, using free cash flow to enhance share owner value and improve return on capital employed, continuing to develop the role of the parent company in adding value to our clients and people, developing our portfolio in high-revenue growth areas, both geographically and functionally, and improving our creative quality and capabilities.

Outlook

Worldwide economic conditions are set to continue to improve in 2005 – the only economic worry being whether twin deficits, commodity price inflation and the weak dollar, might destabilise the US economy.

Although growth in the world economy continues to be led by Asia Pacific, Latin America, Africa and the Middle East, Russia and the CIS countries, even Western Europe looks set to continue the improvement seen in the second half of 2004.

2006 should benefit from the "mini-quadrennial" impact of the mid-term US Congressional elections, the FIFA World Cup and the Winter Olympics in Turin.

2007 should also benefit from the build-up to the US Presidential elections and the Beijing Olympics in 2008, which, as a maxi-quadrennial year, should be a very strong one, buoyed by those events plus heavy US political advertising and the European Football Championships.

Our letter to share owners starts on page 18.

Our 2004 operating and financial review and financial statements are presented in full on pages 118 to 171 and at www.wppinvestor.com.

2004 revenue[1] by geography

%	
North America	39
UK	17
Continental Europe	26
Asia Pacific, Latin America, Africa & Middle East	18

2004 Headline PBIT[1,2] by geography

%	
North America	44
UK	13
Continental Europe	23
Asia Pacific, Latin America, Africa & Middle East	20

2004 revenue[1] by sector

%	
Advertising and Media investment management	46
Information, insight & consultancy	17
Public relations & public affairs	11
Branding & identity, Healthcare and Specialist communications	26

2004 Headline PBIT[1,2] by sector

%	
Advertising and Media investment management	53
Information, insight & consultancy	12
Public relations & public affairs	10
Branding & identity, Healthcare and Specialist communications	25

Notes

[1] Percentages are calculated on a constant currency basis. See definition on page 170.

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

Who runs WPP

Non-executive chairman

Philip Lader
Chairman of the Nomination committee
Member of the Compensation committee

Executive directors

Sir Martin Sorrell
Chief executive
Member of the Nomination committee

Paul Richardson
Finance director

Howard Paster
Director

Mark Read
Strategy Director

Non-executive directors

Esther Dyson

Orit Gadiesh

David Komansky

Christopher Mackenzie
Member of the Compensation committee
Member of the Nomination committee

Stanley (Bud) Morten
Chairman of the Compensation committee
Member of the Audit committee
Member of the Nomination committee
Senior independent director

Koichiro Naganuma

Lubna Olayan

John Quelch

Jeffrey Rosen
Member of the Audit committee

Paul Spencer
Chairman of the Audit committee

Members of the Advisory Board
Jeremy Bullmore
John Jackson

Company Secretary
Marie Capes

Directors' biographies appear on pages 84 to 86.

How we behave

Corporate governance

The Board of directors as a whole is collectively accountable to the Company's share owners for good corporate governance and is committed to achieving compliance with the principles of corporate governance set out in the Combined Code.

Our goal is to comply with relevant laws, regulations, and guidelines such as the Combined Code, the US Sarbanes-Oxley Act of 2002 and their related regulations and, as far as is practicable, policies such as the Hermes Principles and those issued by the Association of British Insurers (ABI), the National Association of Pension Funds (NAPF), the Pensions Investment Research Consultants (PIRC) and NASDAQ.

WPP operates a system of internal control, which is maintained and reviewed in accordance with the Combined Code and the guidance in the Turnbull Report as well as the relevant provisions of the Securities Exchange Act 1934 as they currently apply to the Company. In the opinion of the Board, the Company has complied throughout the year with the Turnbull Report and has also complied with the relevant provisions of the Securities Exchange Act 1934.

Corporate responsibility

Howard Paster is the Board director responsible for assessing corporate responsibility risks. He chairs WPP's corporate responsibility committee, established in 2003, which advises on policy, monitors emerging issues and co-ordinates communication among Group companies. The Committee is made up of senior representatives from WPP's major business categories. It identifies and assesses significant corporate responsibility risks and opportunities for the business and believes it has adequate information to make this assessment.

WPP's three most significant corporate responsibility issues are:

1 **The impact of our work** including marketing ethics, compliance with marketing standards, protection of consumer privacy, social and cause-related marketing. The work our operating companies produce is part of our corporate responsibility performance. They are expected to comply with all laws, regulations and codes of marketing practice as well as our own Code of Business Conduct.

2 **Employment** including diversity and equal opportunities, business ethics, employee development, remuneration, communication and health and safety. Our goal is to have a talent base that reflects the communities in which we operate. We believe diversity contributes to creativity, new ideas and a richer workplace. In 2004, WPP invested £25.1 million in training and well-being across the Group.

3 **Social investment** including pro bono work, donations to charity and employee volunteering. In 2004, our total social investment was worth £14.1 million, equivalent to 0.3% of revenue (3.1% of pre tax profits). This includes £11.4 million in pro bono work (based on the fees the benefiting organisations would have paid for our work) and £2.7 million in donations.

Full details of our governance policies and practices can be found on pages 88 to 101.

How we're rewarded

Executive remuneration policy is set by WPP's Compensation committee, based on the following principles:

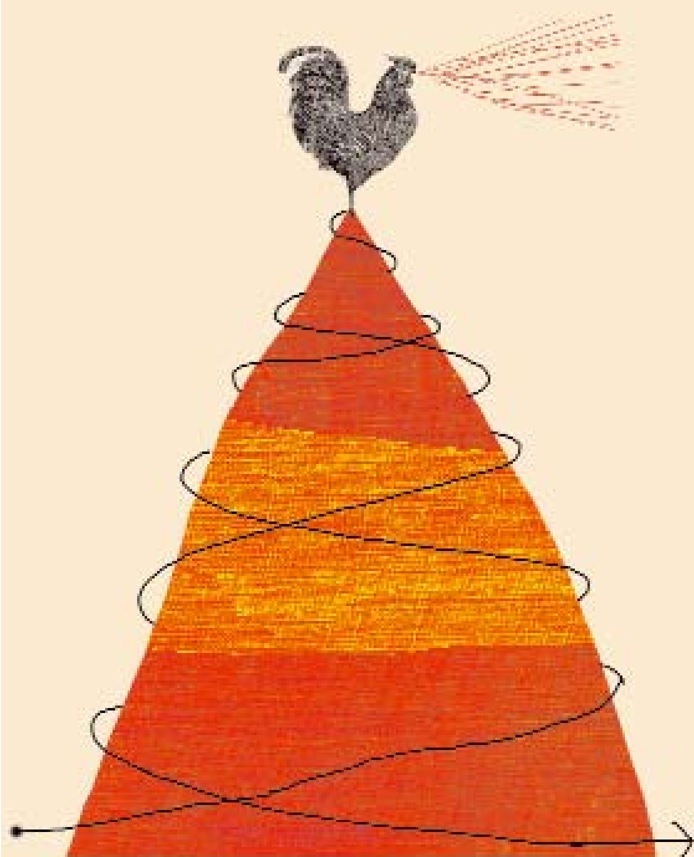
- Total remuneration opportunities are designed to be fully competitive in the relevant market.
- All remuneration packages have a significant performance-related and variable element.
- Incentives are based on meeting specific, measurable and challenging performance objectives.
- The performance objectives which are set for incentives are designed to align executive rewards with the creation of value for our share owners.
- The total remuneration program includes significant opportunities to acquire WPP stock, building a strong ownership culture.

Annual grants of WPP performance shares are made to all executive directors and other senior executives in the parent company.

The Executive Stock Option Plan has been used annually to make option grants to key executives in our operating companies and parent company, excluding parent company executive directors. The granting of options during 2005 and subsequently is currently under review and the Compensation committee is considering alternative incentives (e.g. awards of restricted stock).

Our Worldwide Ownership Plan provides annual stock option grants to all people in 100%-owned operating companies with more than two years' service. Options under this Plan have been granted to over 49,000 employees for approximately 23.6 million WPP ordinary shares.

Our directors' remuneration and interests are described on pages 102 to 117. A full report from the Compensation committee starts on page 103.



About share ownership

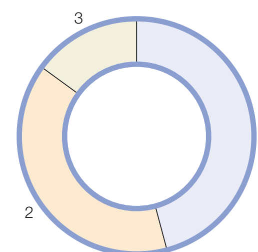
WPP is quoted on the London Stock Exchange and NASDAQ in New York.

Analysis of shareholdings

Issued share capital as at 31 December 2004: 1,185,338,038 ordinary shares, owned by 13,989 share owners.

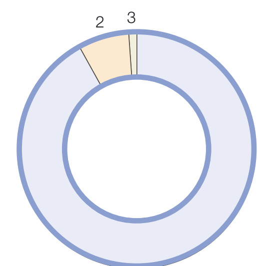
Share owners by geography

1	UK	46%
2	US	39%
3	Asia Pacific, Latin America, Africa & Middle East and Continental Europe	15%



Share owners by type

1	Institutional investors	92%
2	Employees	7%
3	Other individuals	1%



Substantial share ownership

As at 10 May 2005, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

Legg Mason	4.14%
WPP ESOPs	3.99%
Legal & General	3.33%
Barclays	3.01%

The disclosed interests of all of the above refer to the respective combined holdings of those entities and to interests associated with them. The Company has not been notified of any other holdings of ordinary share capital of 3% or more.

Share owner relations

WPP has a well-developed continuous program to address the needs of share owners, investment institutions and analysts, supplying a regular flow of information about the company, its strategy, performance and competitive position.

Our website, *www.wppinvestor.com*, has been created specifically for WPP's share owners and the worldwide financial community. It provides current and historical financial information including trading statements, news releases and presentations. ■

More information relating to share ownership can be found on pages 172 to 175.

Who we are

WPP is one of the world's largest communications services groups, made up of leading companies in:

- Advertising
- Media investment management
- Information, insight & consultancy
- Public relations & public affairs
- Branding & identity
- Healthcare communications
- Direct, promotion & relationship marketing
- Specialist communications

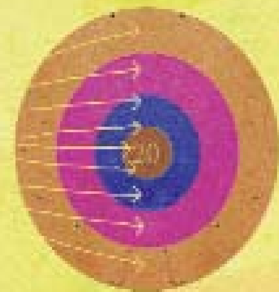
Every WPP company is a distinctive brand in its own right; all with their own identities and own areas of expertise. That is their strength. What they have in common is in harnessing intelligence, talent and experience to bring competitive advantage to their clients.

Through our companies and associates, WPP offers a comprehensive and, when appropriate, integrated range of communications services to national, multinational and global clients.

Our companies work with more than 300 of the Fortune Global 500; over one-half of the NASDAQ 100 and over 30 of the Fortune e-50. Over 330 clients are served in three or more disciplines. More than 230 clients are served in four disciplines; these clients account for around 50% of Group revenues. The Group also works with nearly 200 clients in six or more countries.

Collectively, the Group has 84,000* people working in over 2,000 offices in 106 countries. ■

*Including associates.



B•K•S•H & Associates
Buchanan communications
MillwardBrown
mjm

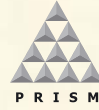
DOVETAIL
MEDIAPRO
Headlight Vision Global Insights. Fresh Inspiration.
Mando Brand Assurance
einsonfreeman
CONTRACT
IMRB international

MindShare

OgilvyOne worldwide
PRISM
ALLIANCE

THE MATTSON JACK GROUP DIRECTIONS IN GLOBAL HEALTHCARE
MEDIACOM
MENDOZADILLON
SPAFAX
kmr group
ohal marketing response consultants

ROBINSON LERER & MONTGOMERY STRATEGIC COMMUNICATIONS


GREY WORLDWIDE
HC
VML
rtc
HILL & KNOWLTON
DY&R
Banner Corporation
Landor
HenleyCentre

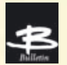
winglatino
FINSBURY
BRIERLEY & PARTNERS
rmg:connect The Relationship Marketing Group
addison

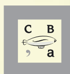
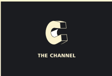
SUDLER & HENNESSEY HAVE IT BOTH WAYS

J.BROWN

The Geppetto Group
ENTERPRISE IG
THE STORE GLOBAL RETAIL INITIATIVES
Y&R

EWA Bespoke Communications
gel

Kantar
uwg UniWorld Group, Inc.

CENTER PARTNERS
CommonHealth

www.outrider.com
[BRANDBUZZ]
Ziment
Ogilvy & Mather Worldwide
Burson-Marsteller
CHIME COMMUNICATIONS PLC

GREY HEALTHCARE GROUP
YOUNG & RUBICAM BRANDS
LIGHTSPEED RESEARCH
The Farm Group

THE CHANNEL
PACE

gt
WUNDERMAN
Ogilvy Healthworld
Kang & Lee Advertising
Warwicks
WalkerGroup

ADDEDVALUE

BDG workfutures
141 worldwide
JWT
A. Eicoff & Company

SOHO SQUARE
Lambie-Nairn
the:digitaledge
FUSION 5

fullsix
BROUILLARD COMMUNICATIONS
GREY GLOBAL GROUP
thebravogroup
Cohn & Wolfe Driven by Ideas

CANNONDALE
SAVATAR
Think the Unthinkable 금강기획
clarion communications
pFour

The Campaign Palace.
THE GRASS ROOTS GROUP PLC
metro
bpri
LG Ad
Ogilvy
Ogilvy Public Relations Worldwide
FITCH
M ONE
Quadra Advisory
MAXUS
:) HIGH CO.
red cell
groupm
mediaedge:cia
Headcount impacting brand performance
Ogilvy Primary Contact
Quinn Gillespie & Associates LLC

ADK

THE FOOD GROUP ADVERTISING • MARKETING • CULINARY
COLEY PORTER BELL

BatesAsia
PSB Penn, Schoen & Berland Associates, Inc.

BDG McColl
PORTLAND
THE PARTNERS
imaginet
RESEARCH INTERNATIONAL
BMRB INTERNATIONAL
Feinstein Kean Healthcare An Ogilvy PR Worldwide Company
Wexler & Walker public policy associates
KnowledgeBase MARKETING, INC.
A WUNDERMAN COMPANY
digit Simple.Human.Interaction

Glendinning MANAGEMENT CONSULTANTS
IPAN Public Relations & Public Affairs
DIRECTIMPACT
GLOBAL SPORTNET
JWT JWT Specialized Communications
marsteller
NYLON
gci
FORWARD
MAX MARKETING
syzygy
G2
clever media

Who we are

Advertising

ADK[1]
www.adk.jp

Bates Asia
www.batesasia.com

Batey/Red Cell
www.batey.com.sg

Berlin Cameron/Red Cell
www.bc-p.com

Brand Buzz ■
www.brandbuzz.com

The Campaign Palace
www.thecampaignpalace.com.au

Dentsu Young & Rubicam (DY&R)[1] ■
www.yandr.com

Diamond Ad
www.diamond.co.kr

Equus/Red Cell[1]

Grey Worldwide ◆
www.greyglobalgroup.com

LG Ad[1]
www.lgad.co.kr

JWT
www.jwt.com

Marsteller Advertising ■
www.marsteller.com

Ogilvy & Mather Worldwide
www.ogilvy.com

Red Cell
www.redcellnetwork.com

Soho Square
www.sohosq.com

Y&R ■
www.yandr.com

Media investment management

GroupM:

The Digital Edge ▲
www.thedigitaledge.com

MAXUS
www.maxusglobal.com

MediaCom
www.mediacom.com

Mediaedge:cia
www.mecglobal.com

MindShare
www.mindshareworld.com

mOne Worldwide

Outrider ▲
www.outrider.com

Wunderman Media ▲
www.wundermanmedia.com

Other media agencies

KR Media[3]

Portland Outdoor ●
www.portlandoutdoor.com

Information, insight & consultancy

The Kantar Group:
www.kantargroup.com

Added Value Group
www.added-value.com

BPRI
www.bprigroup.com

Cannondale Associates
www.cannondaleassoc.com

Center Partners
www.centerpartners.com

Fusion 5
www.fusion5.com

Glendinning
www.glendinning.com

HeadlightVision
www.headlightvision.com

The Henley Centre
www.henleycentre.com

IMRB International
www.imrbint.com

KMR Group
www.kmr-group.com

– AGBNielsen Media Research[2]
www.agbgroup.com

– BMRB International
www.bmrb.co.uk

– IBOPE Media Information[1]
www.ibope.com.br

– Marktest[1]

– Mediafax
www.mediafax-pr.com

Lightspeed Research
www.lightspeedresearch.com

Management Ventures
www.mventures.com

Mattson Jack Group
www.mattsonjack.com

Millward Brown
www.millwardbrown.com

pFour Consultancy
www.pfour.co.uk

Research International
www.research-int.com

Ziment
www.zimentgroup.com

Other marketing consultancies

OHAL
www.ohal-group.com

Quadra Advisory[1]
www.quadraadvisory.com

Our companies and associates

[1] Associate
[2] Joint venture
[3] Minority investment
■ Part of Young & Rubicam Brands
▲ A Mediaedge:cia company
◆ Part of Grey Global Group
● Merging with PPL to create Kinetic Worldwide
As at 10 May 2005

Public relations & public affairs

BKSH■
www.bksh.com

Blanc & Otus
www.blancandotus.com

Buchanan Communications
www.buchanan.uk.com

Bulletin
www.bulletin.com

Burson-Marsteller■
www.bm.com

Chime Communications PLC[1]
www.chime.plc.uk

Clarion Communications
www.clarioncomms.co.uk

Cohn & Wolfe■
www.cohnwolfe.com

Finsbury
www.finsbury.com

GCI Group◆
www.gcigroup.com

Hill & Knowlton
www.hillandknowlton.com

Ogilvy Public Relations Worldwide
www.ogilvypr.com

Penn, Schoen & Berland
www.psbsurveys.com

Quinn Gillespie
www.quinngillespie.com

Robinson Lerer & Montgomery■
www.rlmnet.com

Timmons and Company
www.timmonsandcompany.com

Wexler & Walker Public Policy Associates
www.wexlergroup.com

Branding & identity

CB'a
www.cba.tm.fr

Enterprise IG
www.enterpriseig.com

Landor Associates■
www.landor.com

The Partners■
www.thepartners.co.uk

Addison Corporate Marketing
www.addison.co.uk

BDGMcColl
www.bdg-mccoll.com

BDGworkfutures
www.bdgworkfutures.com

Coley Porter Bell
www.cpb.co.uk

Dovetail
www.dovetailfurniture.com

Fitch
www.fitchww.com

Lambie-Nairn
www.lambie-nairn.com

MJM Creative
www.mjmcreative.com

Walker Group
www.wgcni.com

Warwicks
www.warwicks-uk.com

Healthcare

CommonHealth
www.commonhealth.com

Feinstein Kean Healthcare
www.fkhealth.com

Grey Healthcare Group◆
www.ghgroup.com

Ogilvy Healthworld
www.ogilvyhealthworld.com

Sudler & Hennessey■
www.sudler.com

Direct, promotion & relationship marketing

A. Eicoff & Co
www.eicoff.com

Brierley & Partners[1]
www.brierley.com

Dialogue Marketing
www.dialmkg.com

Einson Freeman
www.einsonfreeman.com

EWA
www.ewa.ltd.uk

FullSIX[1]
www.fullsix.com

Good Technology▲
www.goodtechnology.com

The Grass Roots Group[1]
www.grg.com

Grey Synchronized Partners◆

– Grey Direct◆
www.greydirect.com

– Grey Interactive◆
www.greyinteractive.com

– G2 Worldwide◆
www.g2.com

– J. Brown◆
www.jbrown.com

Headcount Worldwide Field Marketing
www.headcount.co.uk

High Co[1]
www.highco.fr

Imaginet
www.imaginet.com

KnowledgeBase Marketing■
www.knowledgebasemarketing.com

Mando Brand Assurance
www.mando.co.uk

Maxx Marketing
www.maxx-marketing.com

OgilvyOne Worldwide
www.ogilvy.com

rmg:connect
www.rmgconnect.com

RTC Relationship Marketing■
www.rtcrm.com

Savatar
www.savatar.com

syzygy[1]
www.syzygy.net

VML
www.vml.com

Wunderman■
www.wunderman.com

141 Worldwide
www.141worldwide.com

Specialist communications

Corporate/B2B

Brouillard
www.brouillard.com

Ogilvy Primary Contact
www.primary.co.uk

Custom media

Forward
www.theforwardgroup.com

Spafax
www.spafax.com

Demographic marketing

The Bravo Group■
www.thebravogroupyr.com

Kang & Lee■
www.kanglee.com

Mendoza Dillon
www.mendozadillon.com

UniWorld[1]
www.uniworldgroup.com

WING Latino◆
www.winglatino.com

Employer branding/recruitment

JWT Specialized Communications
www.jwtworks.com

Event marketing

PCI Fitch
www.fitch.com

Foodservice

The Food Group
www.thefoodgroup.com

Sports marketing

Global Sportnet
www.globalsportnet.com

Première Group
www.premiere-group.co.uk

PRISM Group
www.prismteam.com

Entertainment marketing

Alliance◆
www.alliance-agency.com

Youth marketing

The Geppetto Group
www.geppettogroup.com

G WHIZ◆
www.thinkgwhiz.com

Real estate

Pace
www.paceadv.com

Technology

Banner Corporation■
www.b1.com

Media & production services

Clockwork Capital[1]
www.clockworkcapital.com

The Farm Group
www.farmpost.co.uk

MEDIApro Group[1]
www.mediapro.es

Metro Group
www.metrobroadcast.co.uk

WPP Knowledge Communities

The Channel
dmuir@wpp.com

The Store
m.johnson@the-store.org

Why we exist

Between them, WPP companies have tens of thousands of individual clients. They range from Fortune 500 global giants through single-nation start-ups to the smallest of specialist charities. Diverse as they are, they have one thing in common: in pursuing their objectives, they face formidable competition.

Growing affluence in many parts of the world – combined with over-capacity and over-supply in almost every significant consumer market – have put more and more power into the hands of consumers.

As always, if they are to succeed – or even to survive with profit – every competitive company needs an intrinsically appealing product or service. But that, though it remains the most fundamental of requirements, is no longer enough. Just as competitive costermongers arrange their apples in appealing displays, and polish them lovingly to catch their customers' eyes, so all companies need to display their wares compellingly.

They need access to high quality information, strategic advice and specialist communications skills. And it's in the nature of specialist and creative talent that it is unlikely to flourish within the confines of a manufacturing or service company. People with specialist talents work best – and contribute more – when recruited, trained and inspired by specialist companies.

Within the WPP Group, our clients have access to companies of all the necessary marketing and communications skills; companies with strong and distinctive cultures of their own; famous names, many of them.

WPP, the parent company, complements these companies in three distinct ways.

1 First, it relieves them of much administrative work. Financial matters (such as planning, budgeting, reporting, control, treasury, tax, mergers, acquisitions, investor relations) are co-ordinated centrally. For the operating companies, every administrative hour saved is an extra hour to be devoted to the pursuit of professional excellence.

2 Secondly, the parent company encourages and enables operating companies of different disciplines to work together; both for the benefit of clients and for the job satisfaction of our people. In the management of talent – including recruitment and training; in property management, procurement, information technology and knowledge sharing, the parent company plays an across-the-Group part.

3 And finally – a relatively recent development, this – WPP itself can function as the 21st century equivalent of the full-service agency. For a minority of clients, predominantly those with a vast geographical spread and a need for marketing services ranging from advertising through design and website construction to research and internal communications, WPP can act as a portal to provide a single point of contact and accountability.

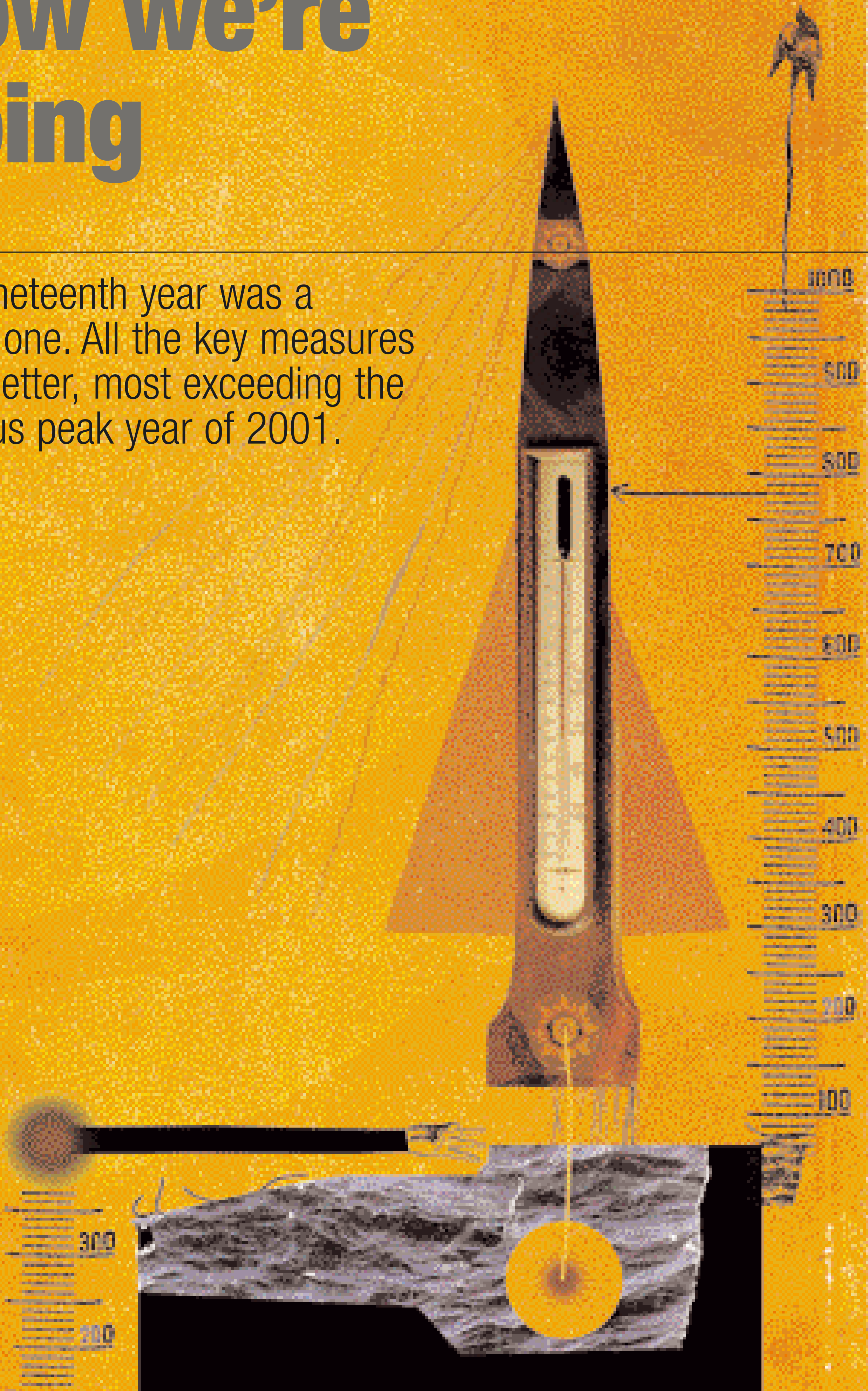
No two clients are structured in precisely the same way. Within WPP's operating companies, teams can be tailor-made to match any and all. ■

Our mission

To develop and manage talent;
to apply that talent,
throughout the world,
for the benefit of clients;
to do so in partnership;
to do so with profit.

How we're doing

Our nineteenth year was a strong one. All the key measures were better, most exceeding the previous peak year of 2001.



Financial summary*

	2004	2003	Change %
Turnover (billings)	**£19,598m**	£18,621m	+5.2
Revenue	**£4,300m**	£4,106m	+4.7
Headline EBITDA[1]	**£709m**	£661m	+7.3
Headline operating profit[2]	**£560m**	£493m	+13.6
Reported operating profit	**£485m**	£415m	+16.7
Headline PBIT[2]	**£608m**	£534m	+13.9
Headline PBIT margin	**14.1%**	13.0%	+1.1
Headline PBT[2]	**£547m**	£473m	+15.4
Reported PBT	**£457m**	£350m	+30.5
Headline diluted earnings per share[4]	**32.3p**	29.0p	+11.4
Headline diluted earnings per ADR[3, 4]	**$2.96**	$2.37	+24.9
Ordinary dividend per share	**7.78p**	6.48p	+20.0
Ordinary dividend per ADR[3]	**71.3¢**	53.0¢	+34.5
Net debt at year-end	**£300m**	£362m	-17.1
Average net debt[5]	**£810m**	£1,222m	-33.7
Ordinary share price at year-end	**573.0p**	548.5p	+4.5
ADR price at year-end	**$54.67**	$49.30	+10.9
Market capitalisation at year-end	**£6,792m**	£6,513m	+4.3

Notes

* These figures have been prepared under UK GAAP.

[1] Headline EBITDA: profit on ordinary activities before taxation, net interest payable and similar charges of £70.7 million (2003: £71.6 million), depreciation of £103.4 million (2003: £127.5 million), and goodwill amortisation and impairment of £78.5 million (2003: £112.0 million).

[2] Headline operating profit: Operating profit before goodwill amortisation and impairment of subsidiaries of £75.0 million (2003: £77.7 million).
Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment of £78.5 million (2003: £112.0 million), fixed asset gains of £3.0 million (2003: £nil) and write-downs of £5.0 million (2003: £nil).
Headline 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 of £9.5 million (2003: £11.5 million). The calculation of Headline PBIT and Headline PBT is set out in note 28 of the financial statements.

[3] One American Depositary Receipt represents five ordinary shares. These figures have been translated for convenience purposes only using the profit and loss exchange rates shown on page 134. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

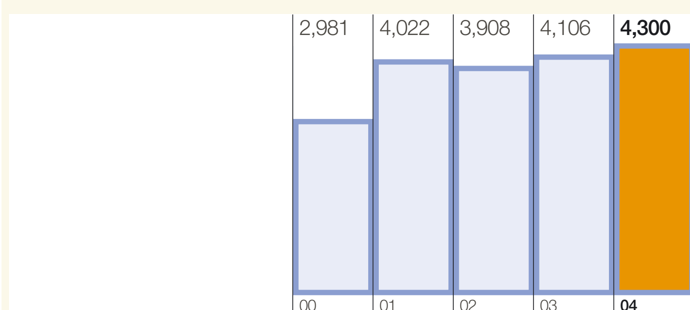
[4] Headline diluted earnings per share and ADR excludes goodwill amortisation and impairment, fixed asset gains and write-downs, and net interest charges on defined benefit pension schemes. Earnings per share is disclosed in note 8 of the financial statements.

[5] Average net debt is defined on page 170.

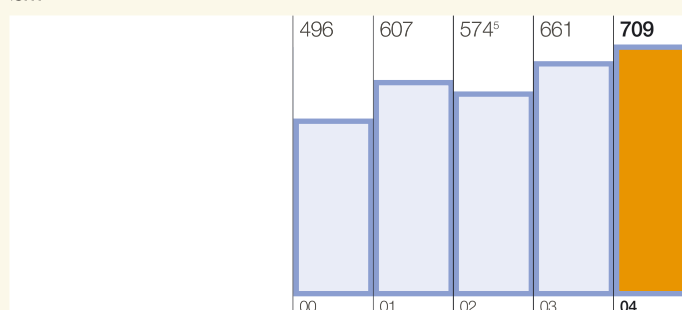
How we're doing

Financial summary

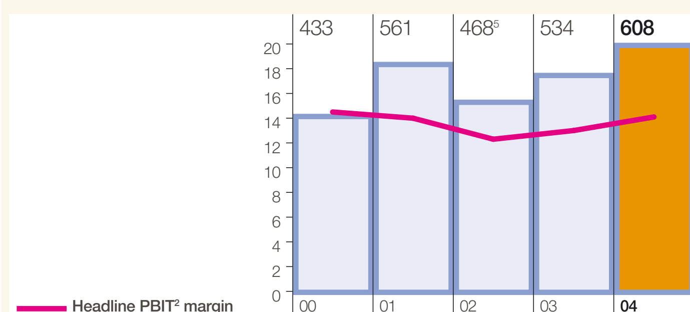
Revenue
£m



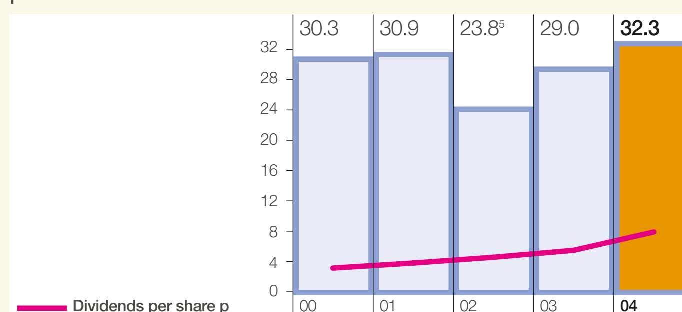
Headline EBITDA[1]
£m



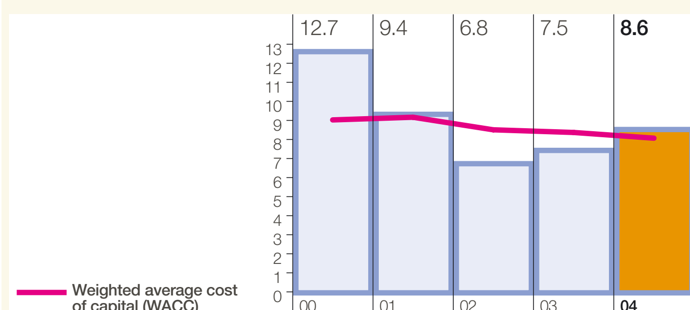
Headline PBIT[2]
£m



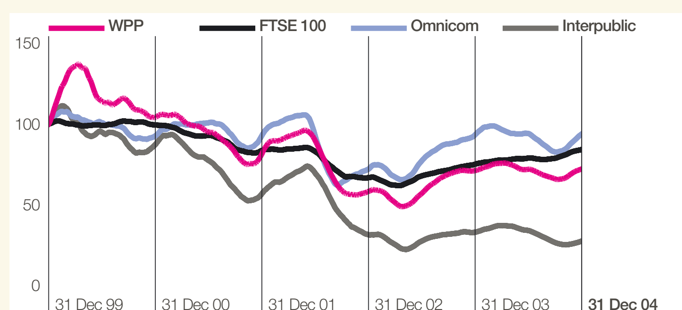
Headline diluted earnings per share[3]
p



After tax return on average capital employed[4]
%



WPP total return to share owners relative to relevant comparators
rebased to 31 December 1999



Notes

[1] Headline EBITDA: profit on ordinary activities before taxation, net interest payable and similar charges of £70.7 million (2003: £71.6 million), depreciation of £103.4 million (2003: £127.5 million), and goodwill amortisation and impairment of £78.5 million (2003: £112.0 million).

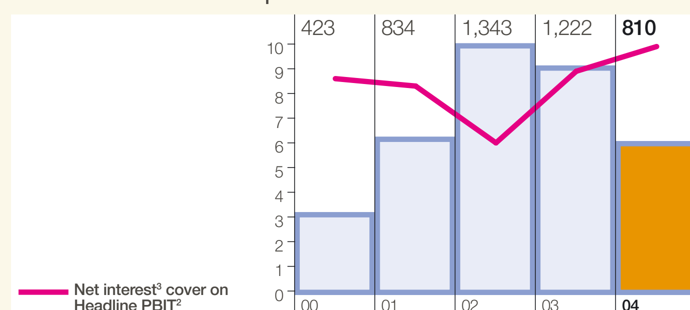
[2] Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of Headline PBIT is set out in note 28 of the financial statements.

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

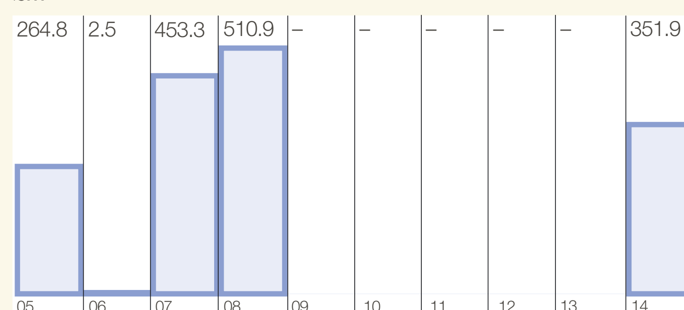
[4] Calculated gross of goodwill, revaluation reserve and using profit after taxation before goodwill amortisation and impairment, fixed asset gains and write-downs.

[5] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Average net debt £m and **interest cover** multiples



Debt maturity[4] £m



2004 revenue[1] by geography %

Region	%
North America	39
UK	17
Continental Europe	26
Asia Pacific, Latin America, Africa & Middle East	18

2004 Headline PBIT[1,2] by geography %

Region	%
North America	44
UK	13
Continental Europe	23
Asia Pacific, Latin America, Africa & Middle East	20

2004 revenue[1] by sector %

Sector	%
Advertising and Media investment management	46
Information, insight & consultancy	17
Public relations & public affairs	11
Branding & identity, Healthcare and Specialist communications	26

2004 Headline PBIT[1,2] by sector %

Sector	%
Advertising and Media investment management	53
Information, insight & consultancy	12
Public relations & public affairs	10
Branding & identity, Healthcare and Specialist communications	25

Notes

[1] Percentages are calculated on a constant currency basis. See definition on page 170.

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

[3] Interest excludes net interest charges on defined benefit pension schemes.

[4] Includes corporate bonds, convertible bonds and bank loans.

Letter to share owners

Dear share owner

Our nineteenth year was a strong one. All the key measures were better, most if not all exceeding the previous peak year of 2001. The recession following the internet boom has been truly buried. Revenues were up almost 5% to £4.3 billion. Operating margin was up 1.1 margin points to 14.1%. Headline PBIT – that is before interest tax, goodwill amortisation and impairment, fixed asset gains and investment write-downs (still a bit of a mouthful!) – was up almost 14% to £608 million. Headline profit before tax was up over 15% to £547 million.

Profit before tax was up over 30% to £457 million. Headline diluted earnings per share were up over 11% to 32.3p and reported diluted earnings per share up over 37% to 25.0p.

Most importantly, total share owner return improved with your share price rising by over 4% to 573.0p over the year and dividends rising 20% to 7.78p.

These results reflect strong growth in almost all regions – North America, Eastern Europe, Asia Pacific, Latin America, Africa and the Middle East – the one difficult area being Western Europe. Similarly, growth was encouraging across all communications services sectors – Advertising, Media investment management, Information, insight & consultancy, Public relations & public affairs, Branding & identity, Healthcare and Specialist communications. We were firing on all cylinders.

These results also reflected continued improvement in productivity, with like-for-like revenues up over 4% and average headcount almost flat; improved liquidity with average net debt down $412 million; and significantly improved operating margins up 1.1 margin points after incentives and 1.6 margin points before incentives.

The rest of this letter to you is based on constant currency comparisons, which are more meaningful given the relative weakness of the US dollar and strength of the euro in 2004. On a like-for-like basis revenues were up over 4% for the year, up 2% in the first half and accelerating to 6% in the second half. This appears to have been at or above the growth in the worldwide market, with the Group maintaining or slightly increasing market share.

Revenue growth also strengthened in successive quarters, on a like-for-like basis up 1.8%, 3.0%, 5.7% and 5.7%. The momentum was maintained in the first quarter of 2005, with like-for-like revenues again up almost 6%. Our like-for-like revenue objective for 2005 remains 3-4%, well in-line or above forecasts for the advertising and marketing services industry and worldwide GNP growth.

Media continues to lead recovery

By sector, Media investment management led the way, together with Healthcare and Specialist communications, the latter particularly in direct, interactive and internet. However, good performances were also registered by Advertising, Information, insight & consultancy and Branding & identity. Public relations & public affairs, the slowest sector to recover from the recession in 2000, finally contributed a strong year. Marketing services rose to 54% of our revenues in 2004 from 53% in the previous year. We are no longer just an advertising company.

By geography, Asia Pacific, Africa and the Middle East, Latin America and Central and Eastern Europe led the way. The only laggard was Western Europe, particularly France, Germany and the UK, although even these three improved in the second half of the year. As a result, markets outside North America grew to around 61% of our revenues, as compared to 58% in the previous year and 56% the year before that. The influence of the faster-growing markets outside North America is increasing rapidly.

Profits up; liquidity improved

Headline PBIT margins rose to 14.1% from 13.0%, ahead of our objective of 13.8%. This was particularly encouraging as our income statement reflected increased incentive expense, as we fully refilled incentive pools following improved results after the recession. Pre-incentive Headline PBIT margins rose by 1.6 margin points to 16.8% from 15.2%. Incentive payments rose to £161 million from £130 million or three-quarters of a margin point. Total incentive payments were over 22% of operating profits before bonus and taxes, compared to almost 21% in the previous year. Our objective remains to pay out approximately 20% at maximum and 15% at target. Variable staff costs (freelance, consultants and incentive payments) now account for 7.1% of revenues, higher than the previous pre-recessionary peak of 6.6% in 2000. This provides a useful shock absorber for operating margins, should revenues again come under pressure.

As a result of all this, Headline PBIT rose to £608 million, well over $1 billion, up over

How we're doing

Letter to share owners

21% in constant currencies. Although 2004 was a strong year, some of our first generation businesses continued to suffer and a non-cash impairment charge reflecting accelerated amortisation of goodwill of £36 million was taken, less than the £79 million in 2003. Pre-tax profits, therefore, rose by over 30% to £457 million and diluted earnings per share by over 37% to 25.0p. Free cash flow remained very strong at £448 million, similar to 2003.

For the second year in a row, we more than achieved our recently introduced cash flow objective of covering all acquisition payments and share re-purchases, and managed to cover dividend payments too.

Liquidity improved as well. Average net debt fell sharply by £323 million to £810 million. In the first quarter of 2005, liquidity has continued to strengthen, average net debt falling £240 million to £586 million, despite a gross cash payment in respect of the acquisition of Grey Global Group ('Grey') of £384 million. Even after the part-cash acquisition of Grey, your company remains comfortably geared. Headline interest cover in 2004 was over eight times.

Industry prospects

Prospects for the industry in 2005 are okay but not as strong as the quadrennial year of 2004, when a US Presidential election, the Olympic Games and European Football Championships all stimulated growth. The industry will probably grow at 2-3% in 2005, compared to 3-4% in 2004, with marketing services outpacing advertising.

2004 was an excellent year. 2005 will pose challenges but, we believe, will see WPP strengthen further. The company continues to be in its strongest position since 2000. Revenue growth, cost management, productivity, liquidity and balance sheet strength all continued to improve last year and continue to do so in 2005. Most importantly our talent base continues to strengthen.

As a far as 2005 is concerned there are two principle concerns. First, the US continues to run twin deficits. How long growth can continue when the government continues to run current account and fiscal deficits remains to be seen. The American consumer is becoming sluggish, and chairmen and CEOs do not seem willing as yet to increase corporate capital spending to bolster the economy. The recession in 2000 was stimulated by a sharp decline in corporate capital spending, which was then ameliorated by stronger consumer spending. The reverse has not happened yet, despite the strength in corporate profitability, liquidity and margins. Profits as a proportion of GNP are at a 50-year high. At the same time inflation, stimulated by commodity price inflation, in oil and steel in particular, has started to increase and the dollar has weakened. Perhaps this is an old-fashioned approach, but it cannot make sense to operate beyond your means and the currency really represents a country's stock price.

Secondly, Western Europe continues to stagnate. France, Germany and, to a lesser extent the UK, seem to resemble a mature company in a mature industry; there is little top-line growth, with healthcare and pension costs becoming an increasing burden. Unless relative interest rates decline and growth is stimulated by further broadening of the European Union, for example by the early entry of Turkey or by more liberal corporate tax policies, Western Europe may be trapped in a sluggish, Japanese-like, lack-of-growth scenario, falling further behind the US and Asia Pacific.

Despite these issues, there is evidence, particularly in 2004, of a growing focus on top-line growth. Given a low inflationary environment, limited pricing-power and concentrating distribution, clients are increasingly coming to the view there is only one way to compete – through innovation and branding. Promote on price and you create commodities. Innovate and differentiate, you create brands and the right to demand a premium from the consumer. To deliver on growth targets promised to the 'Street' or the 'City', there is a growing realisation that this cannot be done by cutting costs alone. There is a finite limit to cost reduction, whilst until at least you reach 100% market share, there is no limit on top-line growth. Further reinforcing this trend, strategic advisors, such as major management consultants like McKinsey, counsel a switch in focus from costs to revenues. Corporate strategy plans are increasingly concentrating on managing for growth, instead of managing for value.

Finally, managements are just plain tired of grappling with debilitating cost-management programmes. For the last three or four years there has been an inexorable focus on cost. It is much more fun to focus on growth – and perhaps mergers and acquisitions too.

The benefits of Grey

At WPP, like-for-like revenues have grown almost 6% in the first quarter of 2005, including Grey for the month of March,

following completion of the acquisition on 7 March. Grey, which accounts for about 15% of the enlarged company, brings a number of strategic assets and strong people – a strong planning and account handling advertising agency, perhaps which needs to raise its levels of creativity; a strong media investment management capability; a strong public relations capability; a very strong healthcare capability; and finally a strong direct, sales promotion, interactive and internet capability. Geographic strengths include the US and Europe (including Eastern Europe) in particular, with interesting bases in Asia Pacific, Latin America, Africa and the Middle East. From a client perspective there are also major opportunities to build on existing common client opportunities and explore new relationships.

Our margins

Our 2005 budgets indicate organic growth of 3-4%, equally balanced between first and second halves, and skewed to greater growth in marketing services. Operating margins, including Grey, are projected to reach 14.3% (on a UK GAAP basis). So far, we are ahead of budget.

The margin objective for 2006 is 14.8% and in 2007 we could cross 15% for the first time. Whilst 2005 is a more challenging year, 2006 should be better, stimulated by 'mini-quadrennial' factors, such as the mid-term US Congressional elections, the Winter Olympic Games in Turin and the FIFA World Cup in Germany. 2007 should be even better, as we gear up for the 'maxi-quadrennial' in 2008. 2008 itself should be a blow-out year driven by the US Presidential election, a unique summer Olympics in Beijing and a European Football Championships. In mid-2006 we will give guidance on margins beyond 15% as we examine how we might be able to reach 20%. This is not so outrageous as it seems, given that our best performing companies in each services sector already perform at a combined group margin of 17-18%.

Our reason for being, the justification for WPP's existence, continues to be to add value to our clients' businesses and our people's careers. Our goal remains to be the world's most successful provider of communications services to both multinational and local companies.

Our three priorities

We have three strategic priorities.

1 **First,** in the short-term, having weathered the recession successfully, we need to build on the strong base we have established. Our people are better; they are better resourced, better motivated and better incentivised than when we exited the last recession in the early 1990s.

How we're doing

Letter to share owners

The company is also more profitable, more liquid, less leveraged and better structured than then. In the most recent economic cycle margins peaked at 14.5% and bottomed at 12.3%, as opposed to 10.5% and 5.6% last time.

2 **Second**, in the medium-term, we need to continue to integrate successfully the acquisitions of Young & Rubicam Brands and Grey. At Young & Rubicam Brands, the job is largely done, the one remaining task being to further strengthen the Y&R advertising agency, where momentum has slowed recently. The situation at Grey is similar with the focus being to raise the level of creativity in the advertising agency.

3 Our **third** priority, in the long-term or over the next five to 10 years, is to increase the combined geographic share of revenues of Asia Pacific, Latin America, Africa and the Middle East, and Central and Eastern Europe, from around 20% to one-third; to increase the share of revenues of marketing services from around 54% to two-thirds; and to increase the share of more measurable marketing services – such as information, insight & consultancy, direct, interactive and internet – from around one-third of our revenues to 50%.

Our six objectives

Our six objectives remain as follows:

1 First, to continue to raise operating margins to the levels of the best-performing competition. 15% is definitely achievable. 20% is much tougher but not out of the question. BBDO, Dentsu and McCann have done so historically, although the pressure became too great in some instances.

2 Second, to continue to increase flexibility in the cost structure. Great strides were made in 2004 on this. Peak flexibility historically was in 2000, at 6.6% of revenues in variable staff costs. Now at 7.1%, 2004 has seen a new peak; once again we have a sufficient 'shock absorber' in our cost structure, if revenue growth weakens.

3 Third, to improve total share owner return by maximising the return on investment on the company's £450 million free cash flow. There are broadly three alternative uses of funds:

– Capital expenditure, which usually approximates to the depreciation cost and where pressure has eased as technology pricing has fallen.

– Mergers and acquisitions, which have historically taken the lion's share of free cash flow, and where we have made it a little more difficult for ourselves by raising the hurdle rate on capital utilised, in order to increase our return on capital employed. Even so, there are still interesting opportunities, particularly outside the US, where pricing remains lower and where there is a closer fit with the company's strategic objectives. Private transactions remain more attractively priced at single-digit price-earnings multiples.

– Dividends or share buy-backs. Given dividend cover of over four times headline earnings and a dividend yield of just over 1%, we can continue to increase the dividend. However, a rolling share buy-back program appears to offer a more significant benefit to total share owner returns.

4 Fourth, we will continue to enhance the contribution of the parent company. WPP is not just a holding company focused on planning, budgeting, reporting and financial issues, but a parent company that can add value both to our clients and our people. We will continue to do this through a limited group of 250 or so people at the centre in London, New York, Hong Kong and São Paulo.

Many of the initiatives we take are possible because of the scale on which we now operate. In the optimum use of property, in information technology and in procurement generally, we are able to achieve efficiencies that would be beyond the reach of any individual operating company. But it is also clear that there is an increasing requirement for the centre to complement the operating companies in professional development and client co-ordination.

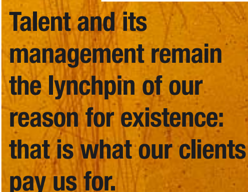
It is a relatively recent development for certain multinational marketing companies, when looking to satisfy their global communications needs, to make their initial approach not to operating companies but directly to parent companies. Such assignments present great opportunities for groups such as ours. It is absolutely essential that we have the professional resources and the practice development capability to serve such clients comprehensively and actively.

All our clients, whether global, multinational or local, continue to focus on three areas: the quality of our thinking, co-ordination of communications, and price. In response, we focus on talent, structure and incentives.

Talent remains key

Talent and its management remain the lynchpin of our reason for existence: that is what our clients pay us for. The development of our

Certain multinational marketing companies now make their initial approach direct to parent companies… presenting great opportunities for groups such as ours.



Talent and its management remain the lynchpin of our reason for existence: that is what our clients pay us for.

2004 was punctuated with a number of major, high-profile wins, resulting in the second strongest organic growth performance in the industry.

people and the way we manage that talent is a critical driver of performance; and here we continue to make significant progress. In the creation of extremely attractive working environments, with highly competitive incentive approaches, we increasingly differentiate ourselves from our competitors and confirm WPP as an attractive destination for talent.

With all this in mind, we have restructured our quarterly reviews with the operating companies, dedicating more time and attention to talent and to clients. Our recruiting efforts throughout 2004 were energetic and fruitful – we targeted and attracted top talent within and beyond our industry. The competitive environment is not only our own industry but areas like private equity too (a factor that some UK institutional investors still fail to acknowledge). However, there is more to be done.

We completed the blueprint for our executive development curriculum and successfully introduced our new client leadership training program. Each of our operating companies installed its own approach to performance assessment and succession planning, aimed at developing the careers of their people, improving the quality of the feedback, coaching and mentoring they receive and providing for orderly succession. We continued to scrutinise and modify our compensation practices: both to offer competitive and justly-based rewards to our existing people and to attract outstanding talent from elsewhere.

Both externally and internally, we are broadening the understanding of the Group's vast resources through a raft of regular communications: our regular *FactFiles* profiling Group resources/companies/products; our monthly public online news bulletin, *e.wire*; our quarterly global newspaper, *The WIRE*; our annual *Atticus Journal* of original marketing thinking; and, in 2004, our second annual Corporate Responsibility Report. We also continue to expand our online communications undertaking a comprehensive redevelopment in 2005 of the WPP intranet and Group website (*www.wpp.com*).

In property management, we continue to implement the WPP Space Program, which together with planned investment in property database and systems, innovative design and continuous review of key locations, seeks to improve the return on our investment in real estate. The Group continues to release surplus space from its portfolio, inherited as part of recent acquisitions, with a reduction of 1.2 million square feet during the last two years, and a further release of 400,000 square feet expected during 2005.

In procurement, we have set ourselves the goal of becoming the undisputed leader of procurement practice in the global advertising and marketing services industry, by delivering tangible value for our operating companies and our clients. We have intensified our internal training in this area and selected our major markets and categories for global, regional or country contracts such as IT, telecoms, facilities, travel, professional services and production, where we can make significant and near-term improvements. The success of this program is shown by the improvement of the non-staff costs to revenue ratio in recent years.

In information technology, we continue to integrate core infrastructure support across our offices. As with Cordiant, Grey operations are being quickly integrated into our IT platform, which has allowed the operating companies to concentrate on client-related IT systems development. The convergence of transmission of electronic data, internet, wireless, IP and traditional voice telephony presents us with a further opportunity to standardise our approach to technology at the regional if not global level, taking advantage of the current overcapacity in the majority of these sectors.

Finally, in practice development we continue to develop 'horizontal' initiatives in a focused set of high-potential areas across our 'vertical' operating brands: in media investment management, healthcare, privatisation, new technologies, new faster-growing markets, internal communications, retail, entertainment and media, financial services and hi-tech and telecommunications. Specifically, we continue to invest in sharing insights and developing initiatives through The Channel (in media and research) and The Store (in distribution and retail).

In key geographical markets we are increasingly co-ordinating our activities through WPP Country Managers. In addition, we are appointing a small number of WPP Global Client Leaders to co-ordinate our efforts on behalf of clients and to ensure that they get the maximum benefit from their relationships with WPP operating brands.

Furthermore, we continue to encourage internal strategic alliances and promote co-operation to reinforce our practice development initiatives in areas such as healthcare, internal communications, and media and entertainment, and to manage our portfolio of direct investments in new media.

All these initiatives are designed to ensure that we, the parent company, really do (and are perceived to) inspire, motivate, coach, encourage, support and incentivise our operating companies to achieve their strategic and operational goals.

5 Fifth, as we move up the margin curve, we intend to place greater emphasis on revenue growth. One legitimate criticism of our performance against the best performing competition is an inability to deliver the highest levels of organic revenue growth. 2000 was a bumper year but unsustainable. In 2001, we disappointingly moved back into the middle of the pack. But

there was a significant revival in 2002 and 2003. In 2003 we were one of only two of the major companies that showed revenue growth. 2004 was punctuated with a number of major, high-profile wins, resulting in the second strongest organic growth performance in the industry.

Our practice development activities are also aimed at helping us to achieve our objective of positioning our portfolio in the faster-growing functional and geographical areas. So far in 2005, in addition to completing the acquisition of Grey, the group made acquisitions in Advertising an Media investment management in the UK, Denmark, Spain and Argentina; in Information, insight & consultancy in Hong Kong; in Public relations & public affairs in Denmark and Saudi Arabia; in Healthcare in the US, Netherlands and Switzerland; in Branding & identity in the US; and in Direct, internet & interactive in the US and the UK.

Achieving our strategic priorities, referred to previously, by expanding the market shares of our businesses in Asia Pacific, Latin America, Africa and the Middle East to one-third, in marketing services to two-thirds and in Information, insight & consultancy, direct and interactive to one-half, is also critical.

We will expand our strong networks – Ogilvy & Mather, JWT, Y&R, Grey, Red Cell, Bates Asia, MindShare, Mediaedge:cia, MediaCom, Research International, Millward Brown, KMR, Hill & Knowlton, Ogilvy Public Relations Worldwide, Burson-Marsteller, Cohn & Wolfe, GCI, OgilvyOne, Wunderman, 141 Worldwide, Grey Synchronized Partners, CommonHealth, Sudler & Hennessey, Ogilvy Healthworld, Grey Healthcare, Enterprise IG, Landor and Fitch – in high-growth markets or where their market share is insufficient.

In 2004 we strengthened our position in Advertising and Media investment management in Canada, Denmark, France, Germany, the Netherlands, Italy, Sweden, Poland, South Africa, China, Japan, India, South Korea, Indonesia and Chile; in Information, insight & consultancy in the US, Hungary, and in television audience measurement in 17 countries through an increased investment in Italy; in Public relations & public affairs in the US and the UK; in Healthcare in the Netherlands; and in Branding & identity in the US and Australia.

We will also enhance our leadership position in Information, insight & consultancy by continuing to develop our key brands with particular emphasis on North America, Asia Pacific and Latin America. We will accelerate our growth of panels and establish a Kantar-wide operational capability. We will reinforce our growing position in media research through KMR. This includes our investments in television audience research through IBOPE, AGBNeilsen Media Research and Marktest, which, combined, are the market leader outside North America.

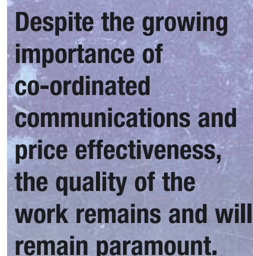
In addition, we will reinforce our worldwide strength in direct and interactive marketing and research through our traditional channels such as mOne, The Digital Edge, OgilvyOne, Wunderman, Blanc & Otus and Lightspeed. Where the recent compressions in financial valuations may offer significant opportunities, we will also invest directly in the new channels. Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail and interactive and to identify new high-growth areas.

Creativity is paramount

6 Our sixth objective is to improve still further the quality of our creative output. Despite the growing importance of co-ordinated communications and price effectiveness, the quality of the work remains and will remain paramount. If you drew a graph plotting creative awards (as a proxy for creativity) against margins for any group of agencies, there would be a very strong correlation. The more awards, the stronger the margins. The client's procurement department disappears into the background when the work is strong. Of the three things we do – strategic thinking, creative execution and co-ordination – creative execution is undoubtedly the most important, and that means creativity in its broadest sense.

Clients look for creative thinking and output not just from advertising agencies, public relations and design companies, but also from our media investment management companies, MindShare, Mediaedge:cia, MAXUS and MediaCom and our research companies. Millward Brown is already arguably one of our most creative brands.

We will achieve this objective by stepping up our training and development programs; by recruiting the finest talent from outside; by celebrating and rewarding outstanding creative success both tangibly and intangibly; by acquiring strong creative companies; and by encouraging, monitoring and promoting our companies' achievements in winning creative awards.



Despite the growing importance of co-ordinated communications and price effectiveness, the quality of the work remains and will remain paramount.

Looking forward

A colossal amount remains to be done – and given the pace of change that our clients face and therefore challenge us with – it seems certain that once these objectives are achieved, they will be replaced by new ones.

As companies grow in size, most chairmen and CEOs become concerned that their organisations may become flabby, slow to respond, bureaucratic and sclerotic.

Any sensible chairman or CEO would not want this to be the case. They would want the benefits of size and scale with the responsiveness and energy of a smaller firm. For the first time new technologies enable this to be achieved more effectively and easily.

WPP is no different. We want the scale and resources of the largest firm together with the heart and mind of a small one.

As a parent company, we continue to develop practical principles and policies for charitable giving, the environment, education and support for communities, education and the arts, based on best-practice guidelines. Our activities complement our operating companies' initiatives and programs in these areas. A summary of the Group's approach to corporate responsibility can be found on pages 97 to 101.

We conservatively calculate that the WPP organisation contributed an estimated £14.1 million worth of time, skills, materials and money to social and community causes in 2004.

Beyond the numbers

A report of this kind contains a bewildering number of numbers.

Those numbers are there because they have to be there – and on this occasion, they are almost universally positive. It has been a very good year.

But numbers, while telling an important truth, can sometimes disguise the true dynamic of a company. In the case of WPP, that dynamic is our people.

Every piece of advice we give, every project we undertake, every advertisement we make, every design we complete, every idea we have: they are all hand made. No two are alike. Each springs from the brain, the experience, the skill and the imagination of WPP company professionals.

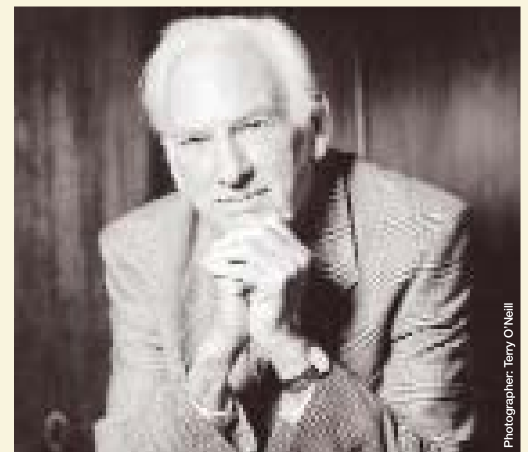
The word creative is usually reserved for advertising and design; for words and pictures. But every single one of the tens of thousands of hand made ideas we produced last year – across all companies, all disciplines and all nations – had creativity as a core ingredient. That is what our clients look for – and that, in gratifying quantities, is what they bought from us in 2004.

Emerging from some 36 months of unrelenting economic battering, our people seized the new opportunities and made the most of them. That all our numbers look so good is entirely due to their unswerving commitment and enviable inventiveness. We thank them all. ■

Philip Lader
Chairman

Sir Martin Sorrell
Group chief executive

Gordon Sampson
1923 – 2004
Founder, Friend and Sage

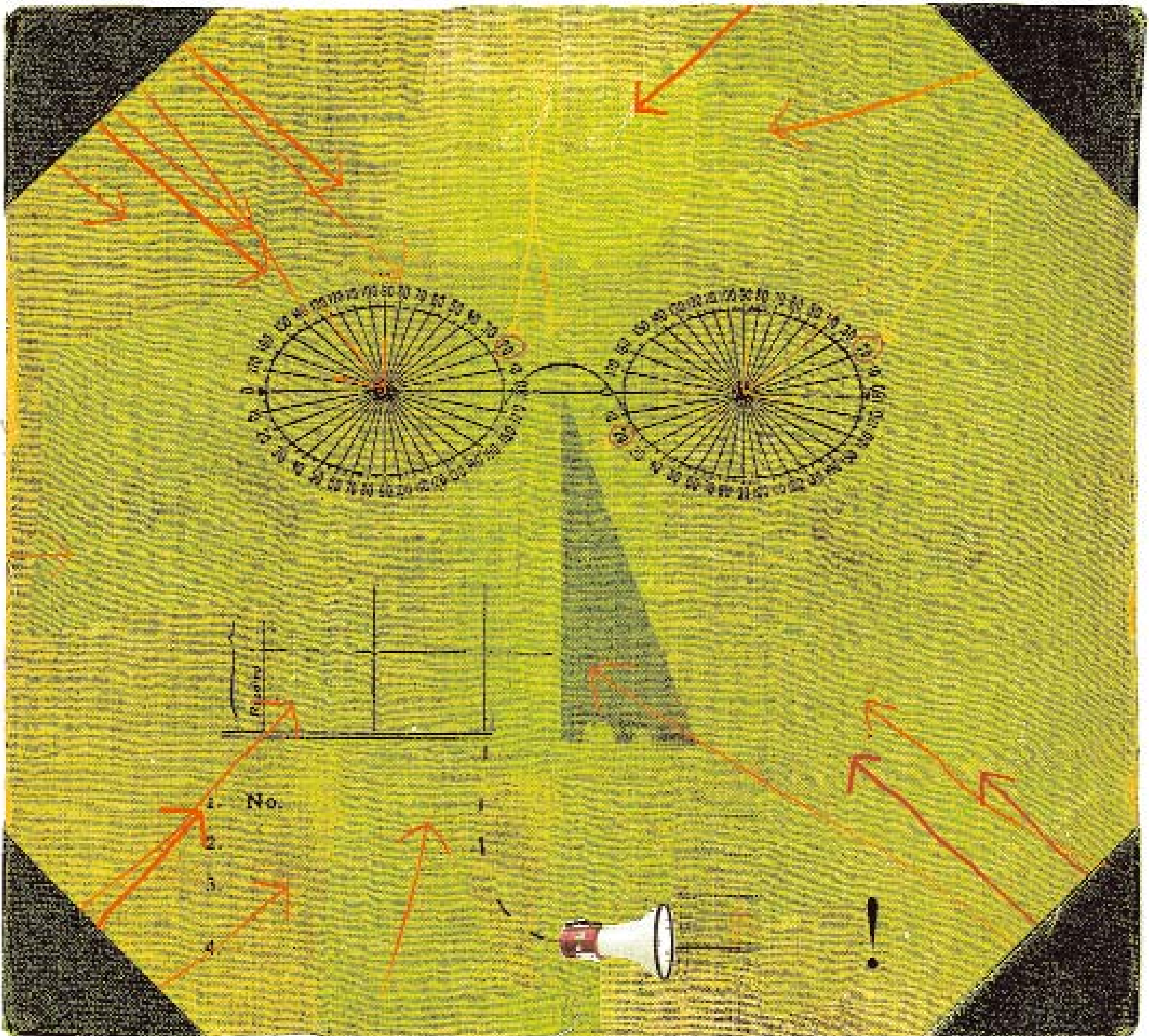


Photographer: Terry O'Neill

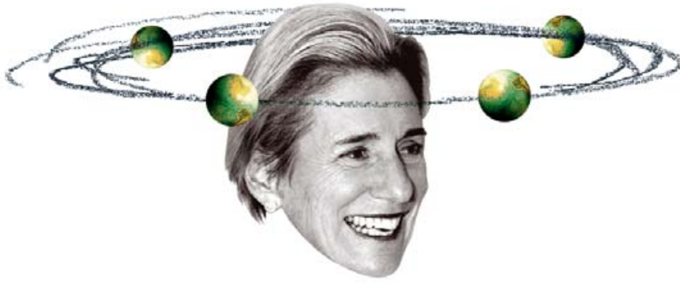
He invented the original Wire and Plastic Products company in the early 1950s, developed it with canny skill and floated it in 1962. In 1985, Wire and Plastic Products became WPP, primarily a marketing services company, but Gordon continued to run the manufacturing division – and did so with undiminished energy until June 2004. It remains to this day an important and profitable part of our business.

In all, he served on the plc board for 29 years, 11 of them as deputy chairman. The company he'd founded experienced great change and growth – but this kind and committed man continued to dispense his wisdom, his friendship and his unwavering support. Had it not been for Gordon, WPP would not exist. We record his loss with love and gratitude.

Reports from our operating brands



Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide



Agency networks

Ogilvy & Mather Worldwide

Change is opportunity
Ten years of commitment to *360 Degree Brand Stewardship*[SM] finds us in an excellent place. All our experience in integrating new technologies and new communication channels to help our clients build brands allows us to stand ready to embrace the change that our industry is now undergoing.

Today, more than 50% of Ogilvy's revenue comes from activities outside traditional advertising – including customer relationship management, interactive, public relations, promotion, and healthcare marketing. To put this in perspective, in 1996 traditional advertising represented 77% of revenues; today it is 49%. While we planned for this shift, we believed it would happen by 2007. We got there in 2004.

This shift is our growth strategy. We are focused on the very real opportunities for growth across a range of disciplines. This year we added two new networks through the WPP acquisition of Cordiant: 141 Worldwide and Ogilvy Healthworld. 141's expertise in creating brand experience beyond traditional media will complement OgilvyOne. Under the new Ogilvy Healthworld banner, Cordiant and Ogilvy healthcare operations have merged to become one of the world's largest global healthcare networks.

We have found innovative ways to add specialties including partnering with other companies. For example, in an industry first, we have a partnership with Yahoo! to create interactive ads on their site – a great opportunity to work with an industry leader and innovator in this growing segment. I see more initiatives such as these taking root under the *360 Degree* umbrella in the coming year.

We also have had significant organic growth across the board. Once again, we grew the number of clients in five or more countries; the number of clients in multiple disciplines; and the number of global brands we handle. We grew in our core markets in the US and Europe, but we also expanded in growth markets like India and China – where we now have close to 1,000 employees in each country.

As always, the best measure of vitality is growth with current clients, and in 2004 this was significant. Kraft consolidated its confectionery brands with us globally; the Nestlé *Wellness Nutrition* program broadened our portfolio; and Coca-Cola added assignments in various markets. There was a raft of new Unilever assignments in multiple regions and disciplines for such brands as Slim·Fast, Carb Options, Promise and Hellmann's. IBM gave us virtually all its global direct customer relationship management and related marketing activities, consolidating a close and vibrant partnership.

This list of new global and regional brands should not overshadow the fact that we added hundreds of new local clients and assignments to our rosters around the world. Local clients add vitality, diversity and, ultimately, capability to our operations and are valued partners in every way.

Our determined focus on brands resulted in some highly visible work. *The Campaign for Real Beauty* for Dove – a fresh expression of a 50-year-old brand promise – has received huge critical and commercial success in markets around the world. *AdAge* called our Moto work for Motorola "ingenious" and "a lesson in holistic marketing." The Jerry Seinfeld webisodes for American Express are exciting, talked about work that broke new ground. The campaign for Indian telecommunications giant Hutch, which won the Grand Effie Award in India, is a superb demonstration of *360 Degree Branding*®.

All in all, we won more than 700 creative awards last year, and we had our best showing ever in The One Show (13 awards from 12 different offices). Other highlights include:

Ogilvy & Mather Worldwide

at the International Caples Awards, OgilvyOne was once again the most-honored agency; at the Clios, Ogilvy won 20 awards; at Cannes (where Piyush Pandey of Ogilvy India was the first Asian to chair the judges panel), we totaled 38 awards, including five Gold Lions in the direct and cyber categories; and, at the Effies, we picked up four trophies in the US.

We were rich in recognition in other ways this year as well. In South Africa, both the agency and its management were given national honors. In Asia Pacific we continue to dominate the rankings, being named network of the year for the third year in a row. In its first year of operation, mOne Worldwide was named interactive media agency of the year. Ogilvy Italy was recognized as the agency with the best reputation. Other agency of the year honors went to: OgilvyOne Worldwide, OgilvyOne Frankfurt/Düsseldorf, both OgilvyOne and Ogilvy PR in China, Ogilvy India, OgilvyOne Mexico, Ogilvy Brazil, and OgilvyOne Argentina. In the US, OgilvyOne was named best business-to-business large agency and OgilvyInteractive was named interactive agency of the year. What is important about these best-in-market awards is that they indicate that Ogilvy is excelling in all disciplines. Excellence in each discipline is a vital precursor to integration. Clients want *360 Degree* thinking, but only when each individual discipline is best in class on its own.

This past year was one in which we made great efforts to create dialog in our industry. We had a very successful creative conference in South Africa, two successful brand forums in Taiwan and Beijing, and a CEO-level brand conference for our Chinese CEOs. OgilvyOne hosted *Verge*, a standing-room only conference on digital and new media in the US. All these initiatives are now being replicated in other markets.

As we forge new ground in our business, it is imperative to provide the thought leadership our industry and our clients need in these changing times. There has been too much noise about how the advertising business is facing difficult and painful adjustments. This is neither our experience, nor our outlook. For us, change is providing the opportunity to grow, to expand capabilities, to be creative and inventive. The truth is there are very few limits to what we can achieve for our clients and their brands. That's an amazing thought, and as good a reason as I can think of to come to work each day. ■

Shelly Lazarus

OgilvyOne Worldwide

OgilvyOne had an outstanding 2004, leading Ogilvy's excellent growth in non-traditional communications.

We achieved a record financial year, with solid year-on-year growth in *every* region. Every sector of our business grew – online marketing, consulting, and also traditional direct marketing communications like direct response advertising and direct mail.

Our increased strategic focus on global clients is paying dividends. Global accounts are the fastest-growing part of our portfolio, and we now have a healthy balance of 50% global and 50% local business.

In 2004, the OgilvyOne network won a record 468 awards for our creative product. For the first year ever, over half of these were for digital marketing programs. In our results-hungry culture, we are particularly pleased with our clients' success at the Direct Marketing Association Echo Awards again this year, where OgilvyOne was the most-awarded agency network.

Client satisfaction ratings, which we systematically measure each year, showed continued improvements. We were rewarded with increased business from existing clients – including the dramatic global consolidation of the IBM direct marketing account, and strengthened global relationships with clients such as Cisco, DHL and Unilever.

OgilvyOne is tackling the future of digital marketing head-on. Our deep understanding of the digital environment coupled with our

interactive expertise has enabled us to lead the charge. We hosted *Verge*, the first-ever OgilvyOne Global Digital Summit in June 2004. *Verge* was created as a global forum for leading thinkers from Ogilvy, our clients and the industry at large to come together to debate the key issues for marketers in the face of massive changes in the consumer landscape. The *Verge* summit provoked debate on topics ranging from mobile marketing to time-shifting, interactive television, channel-neutral planning, to the heart of how we create and nourish brands in the digital world.

Sparked by the success of the inaugural event in New York, we have now taken *Verge* global. We have already held successful *Verge* events in Tokyo, Beijing, Shanghai, Hong Kong, Sydney, Singapore, Mexico City and London, with more cities planned for later in 2005. *Verge* isn't an event; it is a symbol of our ongoing commitment to helping our clients succeed in digital marketing.

The fundamental trends driving our business bode well for OgilvyOne in 2005. First, accountability and the pursuit of marketing return on investment remains the number one priority for chief marketing officers. Second, globalization of brands will continue to be a relevant issue as marketers in all regions look to leverage brands across borders. Finally, it is now clear that digital marketing isn't an experiment or a fad. It has emerged as a mainstream way to connect big-time brands and their most valuable customers.

Within this buoyant context, OgilvyOne will keep its focus on three vital areas:

1 Continuing its deep commitment to client service. Many direct marketing companies grew up as a project or transactional business. Our business has and will be built upon deep and enduring relationships with a selection of high value and high potential clients – both local and global.

2 Becoming a world-class leader in talent management. The war for talent is back. To achieve our long-term growth targets, we have introduced a disciplined process to assess, develop and retain our top people. We will recruit from inside and outside the industry. We will provide opportunities for our people to achieve world-class skills both as direct marketers and as *360 Degree* communications leaders.

3 Helping our clients lead and win in the digital marketing world. ■

Brian Fetherstonhaugh
Chairman and chief executive officer
OgilvyOne Worldwide

Ogilvy Healthworld

The agency completed its first full year as part of the WPP family in 2004. Ogilvy Healthcare and Healthworld Communications Group merged in late 2004 to form Ogilvy Healthworld, one of the largest healthcare agency networks worldwide, with 53 offices in 33 countries. This realized the company's central ambition of building a stronger network to better meet the changing needs of global and regional brands as well as those of local clients.

The merger added representation in several important new countries and has led to multiple offices in the US and UK, Argentina, Canada, Germany, Italy and Spain. The network is now represented in every major world market important to pharmaceutical clients, and is planning additional offices in Russia, China, Australia and several Asia Pacific countries.

The merger significantly enhanced Ogilvy Healthworld's *For the Life of the Brand*™ service portfolio by adding Clinical Trial Recruitment and Public Relations practices, and strengthening the Medical Education and DTC (direct to consumer) areas.

We have grouped our offer around eight major service areas: Clinical Trial Recruitment, Medical Education, Brand Development, Professional Communications, Consumer Promotion/DTC, Public Relations, Global Integration and Disease Management.

Our Global Business Group, charged with supporting integration across service areas and geography to provide seamless support of regional and global assignments, is a powerful competitive advantage for Ogilvy Healthworld.

The diverse skills of the leaders who deliver our array of services enable the organization to cross-fertilize talent across borders and across disciplines. This means we bring the full market perspective and integrated knowledge to client assignments that is needed to meet the challenges of the modern marketplace.

Ogilvy & Mather Worldwide

Relative to new business success in 2004, the agency was awarded several new global assignments covering a range of communications disciplines, including Dulcolax from Boehringer Ingelheim, Herceptin from Roche, Galida from AstraZeneca, Bazedoxifene from Wyeth and Levitra from Bayer.

From a creative perspective, the agency has been able to harness talent across the network by extending the Global Creative Directors Group, with representation from each of the key regions. This group is responsible for supporting global client initiatives and increasingly helping to lead the growing number of global pitches in which Ogilvy Healthworld is invited to participate. Success has resulted in creative recognition with multiple global as well as local award wins in 2004 across the array of our communication services.

The organization is united in its mission to elevate and expand the value of healthcare communications. Our goal is to uniquely connect insights, innovation and ideas that create demonstrable brand success for our clients and sustained growth for the agency and its people. We view the communication of knowledge and information as vital to the effective practice of healthcare, and our people are dedicated to elevating and expanding the *360 Degree* role and value of healthcare communications throughout their daily work. ■

Steve Girgenti
Chief executive officer
Ogilvy Healthworld

141 Worldwide

Well before Cordiant joined WPP, Ogilvy recognised 141 Worldwide as a jewel within the Bates network. It was well known for the unique activation business it had built over the years, it was ahead of the curve in delivering extraordinary work around shopper and trade marketing, and it was one of the few truly global activation networks. With the addition of 141 to the Ogilvy portfolio, it means we can enhance the *360 Degree* brand promise Ogilvy makes to all its clients. For non-shared clients, 141 offers a service proposition which is simply impossible to ignore: through-the-line behavior transformation.

We seek to understand how consumers choose brands, what drives decisions at the point of sale and how the trade impacts that process. With that knowledge, 141 creates programs that build both brand sales and brand equity. When we deliver the right brand experience, sales grow at the same time attitudes improve.

141 creates brand experiences; from the most simple promotional work to complex event delivery, viral marketing, sports and entertainment activities, and channel planning. From BAT and Gillette to Kraft, IBM, Boeing and Unilever, 141 boasts an impressive, growing client list.

We have been fortunate through the years to work with marketers who are committed to building their brands non-traditionally. We leverage the expertise we have built with these partners every day across our network with a totally media-neutral approach and a serious commitment to measurement. In today's evolving marketplace, that is a serious advantage. ■

Rick Roth
Chief executive officer
141 Worldwide

Bob Jeffrey
Chief executive officer
JWT

JWT

At JWT, we have a rich history of firsts, from being the first agency to establish research and account-planning departments to being the first to create ads that used sex appeal and celebrity endorsements, from being the first to develop a commercial television program to being the first to buy a TV roadblock. For the past 140 years, JWT has invented and re-invented the way the advertising industry does business.

And, in my first year as CEO, I sought to return JWT to its pioneering roots of defining the future rather than chasing it. As a result, we made significant strides on the new business, talent and creative fronts.

In 2004, we increased our revenue and market share, thanks to gaining more business from new clients, like Tourism Ireland and Welch's, and existing ones, including Unilever and Ford.

Two of our most significant global wins last year were HSBC and Samsung. In May 2004, HSBC selected JWT to handle its advertising following a five-month competition. The financial services account represented one of the largest wins in our history. And, in November 2004, JWT landed account management responsibilities for Samsung. In both pitches, we collaborated with other WPP companies.

These wins illustrate the strength of our global network at meeting the needs of multinational clients. In each instance, we were involved in building a multi-continent, multi-disciplinary team to pitch and subsequently service the respective accounts.

Being large enough yet nimble enough to respond to global clients is not new for us. We've been practicing it for years. But, there's nothing that validates our proficiency at it more than earning incremental business from our existing worldwide roster.

Last year, Unilever, a client of ours for 102 years, awarded the New York office the Caress and Vaseline Intensive Care brands, and gave us the Knorr business in 18 additional European markets. Kraft consolidated its coffee and cheese brands with us in Italy and Spain, building on our 82-year union. Seventy-four-year client, Nestlé, selected our Chicago office to handle the Stouffer Red Box account, and early this year, consolidated its Aero, Double Cream, Milky Bar, Quality Street and Baci brands with us in the UK. And our business with Pfizer, which has worked with us since 1962, continues to grow.

We also expanded our 61-year-old relationship with our largest client, Ford. In October, JWT Detroit launched one of the biggest integrated marketing campaigns in the auto brand's 101-year existence. The ongoing effort is introducing six new vehicles, including the Escape Hybrid, Freestyle and Mustang, using a variety of means, from television, print and online ads to product integration in TV programs, sports events, concerts and video games.

As clients increasingly use non-traditional forms of media to reach elusive consumers, we aim to strengthen our promotional, direct marketing and interactive services to capitalize on the growing demand for such expertise. Towards this end, in December 2004 we consolidated our customer relationship marketing offerings under one roof, rmg:connect. The global operation, run by Philip Greenfield, has offices in 18 markets, including the US, Spain, the Middle East, Brazil and Japan, working on clients such as Shell, 3M and the Diamond Trading Company.

In addition to delivering solutions across multiple media platforms, raising the level of creativity remains a top priority for us. And we scored some major creative coups last year: We landed a major branding assignment from Vodafone; we won our first Outdoor Grand Prix at the Cannes International Advertising Festival for Kuala Lumpur's "Missile Car" installation for Action Channel 9 News; and in December, *Campaign* magazine cited our "ever-improving creative reputation."

These accomplishments wouldn't have been possible without our most valuable asset, our

JWT

talent. And since talent begets talent, we've taken great pains to attract and retain the best people. We made several high-level creative and management hires last year. And we will continue to solidify our leadership ranks, especially in the critical area of creative.

JWT Worldwide president Michael Maedel and I kicked off 2005 by elevating Craig Davis to chief creative officer Worldwide. This is a part of JWT's transformation into an agency where creative lives squarely in the middle. Since his promotion, Craig (previously our chief creative officer for Europe, Middle East and Africa) has recruited top-notch creative leaders for our HSBC account and for the Gulf region, Southeast Asia, Poland and Central Eastern Europe.

Signaling our commitment to change from the inside out, we also unveiled a new logo and corporate identity at the start of 2005. After amassing a number of versions of our name over the decades, we have returned to the most succinct and recognized iteration: JWT. While perhaps the most visible and obvious expression of the changes afoot here, it is the least important.

What is of utmost significance is our new point of view that recognizes that time is at a premium, and advertising needs to focus on buying people's time. We are cultural anthropologists, and we're in the business of creating insights and ideas that are able to claim a disproportionate share of people's time. It is incumbent upon us to craft communications for our clients that inspire active involvement – that engage, rather than interrupt. This fresh way of thinking addresses an ever-changing media landscape and an increasingly in-control consumer, and it brings JWT and its heritage of firsts into the future. ■

Bob Jeffrey

Young & Rubicam Brands

A year ago, with the symbolic change to the name of Young & Rubicam Brands, we recharged our focus and commitment to our collaborative community of companies.

We strengthened each of our companies, which resulted in strong growth. Organic growth from our global client partners was in the double digits. Profits increased across all our brands. Cohn & Wolfe, Sudler & Hennessey, Wunderman and Landor led the group with extremely vital growth.

We brought in new leadership in two of our companies. Tom Nides joined at the end of the year as the new global president and CEO of Burson-Marsteller.

We also brought new leadership to Bravo, with the appointment of Gary Bassell, who is focusing on the development of multicultural communications.

We named Gord McLean president of Global Client Partner Services to give our client partners access to all of our brands, and in early 2005 gave him the additional responsibility as CEO of Y&R North America.

We worked together to bring in new business, with the major win of Microsoft revealing the power of the Young & Rubicam Brands concept. We worked together, sharing research and resources, experience and wisdom.

In an environment that is wholly transforming brand-consumer relationships, our collaborative model is helping our client partners redefine the times, places and content of their interactions with their customers. No work symbolized that better than *Meet the Lucky Ones*, a film-based interactive web experience with the brand that drove record sales of the Mercury SUV.

Each of our companies has its own piece of the Young & Rubicam Brands story to tell.

Ann Fudge
Chairman and chief executive officer
Young & Rubicam Brands

Y&R

The story of 2004 at Y&R is one about change and resilience. We started the year with the big loss of Burger King. We ended the year maintaining revenue and delivering a profit increase, although client losses suffered at the end of 2004 and beginning of 2005 will clearly impact the performance of the agency in 2005.

Y&R began to redefine the way an agency needs to work in our times with an operating structure built around its clients, a channel-neutral filter and the ability to deploy resources from any part of the network. We redefined our brief as *Ideas Before Advertising, Ideas Beyond Advertising*. Michael Patti stepped up to vice chairman of Y&R and began deep hands-on involvement to sharpen our creative product around the world.

In North America, we created a single, borderless, boundary-less agency organized around a unified client-based P&L to deliver the right teams and the right resources to our client partners. The unified North America operation showed its potential by successfully defending the 7UP brand, which resulted in being awarded the launch of the new 7UP Plus brand.

We brought in new talent with the experience and exuberance for channel-neutral communications and new, high-level brand strategy expertise. We appointed Mary Maroun the North American managing partner of the New York agency. New business wins included Weight Watchers, Toys“R”Us and several pharma assignments. The largest income challenge in New York for 2005 will be to replace revenue lost by AT&T's decision to exit the consumer market.

Y&R's Chicago office helped Miller Lite continue its growth trend with award-winning work. In Detroit, a more integrated operation to deliver channel-neutral solutions was created — work coming out of this new model brought improved results for Mercury. Irvine added Callaway Golf, was named agency of record for Microsoft's Xbox and MSN digital marketing business, and carved out new territory for Land Rover with a viral and integrated campaign. The losses of Sony and Jaguar in the first quarter of 2005 provide an additional challenge to revenue in 2005.

The EMEA region recorded its best performance for many years, not least in the new-business arena in which 2004 proved a record year. Two of the largest wins were the MTN mobile telephone business in South Africa, which promises to develop into one of the biggest pan-African accounts, and FreeMove, a pan-European win of the mobile roaming alliance formed by Orange, T-Mobile, Telecom Italia and Telefonica. Significant local successes included Czech Telecom (Prague), Lottomatica (Milan), Philip Morris and Sunrise (Zurich) and Wrigley's Solano (London, Frankfurt and Bucharest).

New leadership was established in several key markets – France, Spain and Turkey. In addition, a new leadership team in the UK took over after a careful transition process lasting nearly a year. As a result of this and other changes the region ended the year with a much-enhanced balance of strengths across geographies.

A further priority – the highest standards of effective creative work – paid off handsomely with the region almost trebling its number of national and international creative awards: 126 compared with the 44 reported in 2003. The UK was also named The Institute of Practitioners in Advertising's joint Effectiveness Agency of the Year, winning four of the competition's awards at its first attempt.

2004 was a year of growth for Y&R in Latin America. It marked the first full year of the new Y&R in Brazil resulting in the leading agency in that market by ad spend. Both Y&R and Wunderman performed strongly in Mexico. We strengthened our position in Chile by increasing our equity to 100% and the agency continued to deliver strong results. Argentina continues enjoying a recovery thanks to a more stable economic environment. Andina markets have stabilized and Uruguay and Puerto Rico continued to perform well.

Growth in the region has been driven by both our Global Client Partners like Colgate, Ford, Telefonica, Danone and Chevron/Texaco and Key Local Client Partners like Casas Bahia in Brazil, Ripley in Peru and Chile, Avon and Bimbo in Mexico, Dell and Mattel in Miami, Mendez & Co. (Heineken) in Puerto Rico and many others.

We initiated a Creative Leadership program with our first meeting in Buenos Aires in

Young & Rubicam Brands

October 2004. Argentina, Chile, Dominican Republic, Mexico and Uruguay, were recognized as Agency of the Year in their respective markets.

There were key developments in Y&R Asia. Given the importance of global clients, Dentsu and Young & Rubicam agreed to rebrand the joint venture as Y&R Asia, which gives the network single focus and consistency. After several years of disappointing revenue and profit performance, there was a significant turnaround in 2004. This was achieved organically with major existing clients, including both global clients like Colgate and Caltex and the network's most important local clients, Singtel, Samsung, Measat, Cerebos and DTAC. Y&R's critical China operations had a very successful year, with our offices in Shanghai, Beijing and Guangzhou all delivering on growth and profit.

In 2004 the Australian and New Zealand offices recorded another exceptional year in terms of new business and revenue growth. Consistently residing up near or at the top of the new business table, Y&R recorded such wins as Suncorp, Sensis, NSW Tourism and Skyy Vodka. ■

Ann Fudge

Wunderman

Demand for targeted customer communications and data services, across the full media spectrum, fueled Wunderman's growth in 2004. The most significant development was Microsoft's commitment to relationship marketing. It signaled the importance of customer relationships in the fast-changing technology world. It also put Wunderman at the core of Team Microsoft, formed in July to service Microsoft's Servers and Tools, MSN, Mobility and Embedded Devices and Home Entertainment businesses. Drawing on resources and talent of 20+ offices, *Team Microsoft* completed 5,000 projects and expects the scope of work to grow as relationships solidify.

With an estimated 40% of Wunderman's business now digital, clients embracing this channel are as diverse as their programs. Lincoln Mercury's edgy *Meet the Lucky Ones* web film series received critical acclaim in the advertising press. Motorola's *HelloMoto* online platform not only transformed the brand, it keeps customers in 70 countries coming back. Pfizer's *pfizerforliving* web experience is so practical and relevant that customers join and actively participate in the program.

Large global accounts and premiere local and regional businesses continued to thrive throughout Europe, the Middle East and Africa (EMEA). In addition to a multi-million dollar pan-European program for Ford, strong regional brands, such as Diageo, Sky TV, Barilla, Swisscom Broadcast, San Miguel and hotels.com were added to the roster. Creative throughout Europe was recognized with 50+ awards, including the coveted Grand Prix for Star Alliance at the UK's DMA Royal Mail Awards.

Data services remains at the core of our business as marketers want more measurable value from their data strategies. In response, **KnowledgeBase Marketing** transformed its database marketing business into a strategy-led, full-service operation delivering sophisticated analytics that drive higher customer revenues, increase retention and develop more effective customer management strategies.

Demand in health care is also intensifying. Pfizer chose **Wunderman Media** as its planning and buying agency in the US, anchoring our healthcare portfolio. New wins from Novartis and AstraZeneca added critical mass. In addition, **RTC Relationship Marketing**, our mid-sized agency, won a multi-million account for Abbott Laboratories' Humira brand and successfully extended its expertise to health insurance and nutrition with wins from AARP Health Care Options and Weight Watchers.

The depth of Wunderman's leadership team continues to play a significant role in managing the dynamics of the business and sets the stage

for future growth. Mid-year, David Sable added the responsibility for Wunderman's EMEA region. In November, Steve Zammarchi took over as head of our flagship New York office. By year-end, Alexei Orlov was given a global role in running Wunderman's Ford business.

With strong leadership, a vibrant brand and an expansive global network, Wunderman is confident in future growth as demand for relationship marketing services escalates in the years ahead. ■

Daniel Morel
Chairman and chief executive officer
Wunderman

Burson-Marsteller

Growth, record results for clients, thought leadership and innovation best describe Burson-Marsteller in 2004. We continued to strengthen our brand by retaining and growing client relationships, expanding areas of expertise and services, and blazing new trails in CEO and corporate reputation research.

We expanded our roster of blue-chip client partners to include Old Navy, Quest Diagnostics, Jacuzzi, McGraw-Hill, MBNA, Lundbeck Pharmaceuticals, Visa Latin America and Caribbean, and L-3 Communications Security & Detection Systems. We also deepened long-term relationships with clients such as Accenture, SAP, U.S. Treasury Bureau of Engraving and Printing, Merrill Lynch, HP, Pfizer, and American Battle Monuments Commission/National World War II Memorial. The year saw new integrated partnerships with Young & Rubicam Brands and sister WPP companies.

Innovation has always been a core ingredient of B-M's growth and 2004 was no exception. We broadened Litigation PR, Risk Management and Restructuring groups and built upon the corporate governance and CSR consulting services. New services ranged from Global Defense and B4B Supply Chain Management to online crisis resources and a global obesity and nutrition network.

2004 was another banner year for thought leadership. CEO and corporate reputation research was performed in the US, Europe and Mexico. Research topics included reputation recovery, EU enlargement, boardroom IT-deficit, and US presidential and EU parliamentary elections. Our research and acclaimed experts maintained a high profile in the world's leading media outlets.

In 2004, Burson-Marsteller won numerous top PR industry awards. We received the highest score for overall client satisfaction in *PRWeek's* 2004 Agency Excellence Survey and were ranked number one for international communications in the Harris/Impulse Public Relations Client Survey. Other honors included winning *PRWeek's* Global Campaign of the Year and two IPRA Golden World Awards, and achieving *Media* magazine's top-rank for our Asia-Pacific network.

Burson-Marsteller today stands stronger than ever before and we look forward to the opportunities that lie ahead in 2005 and beyond. ■

Tom Nides
President and chief executive officer
Burson-Marsteller

Landor

2004 was a year of continued transformation for Landor across its global network. New clients helped to strengthen our position around the world, while an internal awards program, personnel appointments in key positions and expansion into key markets also contributed to another successful year.

Following five years of affiliate relationship with Sydney's LKS Design, Landor completed the acquisition of LKS in November and appointed Michael Graham, a seasoned Landor veteran, to the role of managing director. Landor Sydney brings to the network not only a significant presence in the market, but also a portfolio of major branding programs and a complementary strategic vision. Clients include the Australian Stock Exchange, Fosters Group, Qantas, Fuji Xerox and Diageo.

In Shanghai, the booming market called for a larger Landor presence. In response to that, a talented team of marketing and branding consultants and designers was put in place. While still small, this team will derive necessary

Young & Rubicam Brands

support from the Hong Kong office, one of the largest in the network.

Network-wide wins for clients included Abbott Laboratories, Best Buy, Brand Madrid, FedEx/Kinko's, GS Group, HSBC, Johnnie Walker, Lenovo, the NFL, Ricoh, Samsung, Telefonica, Verizon and Visa International.

To strengthen the strategic component of our offering worldwide, Mark Kennedy was appointed executive director, Brand Strategy, while Lori Rosenwasser was appointed executive director, Brand Engagement. In Tokyo, Motoi Komatsu, succeeded Kazumoto Kawada as managing director. Kawada was an integral part of the Asia-Pacific team for 27 years. Spencer Mains was appointed chief technology officer, directing all aspects of technology and knowledge sharing on a worldwide basis. ■

Craig Branigan
Chairman and chief executive officer
Landor

Sudler & Hennessey

While there were a number of significant events that led to Sudler & Hennessey's having a terrific year in 2004, the one factor that stands out above all others was the sheer number of times S&H offices were called on by both existing as well as new clients to pitch or directly work on new business.

Among the many new business wins in 2004, some that stand out include new business from Nycomed, Numico, Novartis and Schering AG in Europe; Boehringer Ingelheim in Europe and the US; new assignments from Pfizer in Australia, China, Japan, Europe and the US; new assignments in the US from Cephalon, Galderma and Forest; new assignments in Asia from GSK, Pfizer and Roche; and new global assignments from Roche/GSK, Pfizer, Boehringer Ingelheim, Amgen, and Nabi.

The US offices performed exceptionally well this past year. Sudler & Hennessey Communications, IntraMed and Avenue-e, Precept and Sentrix, HealthAnswers and the FCG Institute all exceeded expectations in their performance this past year.

With this increased growth, Sudler & Hennessey has added new leadership and services to its ranks. In Europe, Geert van Loocke joined the company as our new managing director for S&H Europe. In the US, Paul Giroux joined S&H as our new head of Strategic Planning and Market Analysis. We promoted Bruno Stucchi, our co-creative director for S&H Milan, to the new position of global creative director. Also in the US, we expanded our medical education offerings with the addition of Current Medical Directions, a New York-based medical education firm, to the S&H family.

With all the work done by Sudler & Hennessey offices around the world in 2004, much of it was recognized for its creative excellence. In 2004, S&H offices in Asia, Europe and North America were honored with Gold, Silver or Bronze medals from the following competitions: The Rx Club Awards, New York Festivals (Globals), Manny Awards, MM&M Awards, PMT Reader's Choice Awards, National Pubblico Awards, and the Targa D'Oro Awards. ■

Jed Beitler
Chairman and chief executive officer
Sudler & Hennessey

Bravo

For The Bravo Group, a multicultural group of agencies, 2004 marked a year of change at the top with the recruitment of Gary Bassell as chairman and chief executive officer to replace the departing Daisy Expósito-Ulla, who stepped down after 23 years. Gary's appointment coincided with the December 2004 release of Bravo client's The Census 2000 Special Report *We the People: Hispanics in the United States*, an in-depth portrait of the group served by our Hispanic agency, Bravo. Gary's stewardship, looking forward, will lead Bravo into this newest iteration of the multicultural age, as he oversees Bravo, along with **Mosaica** and

Mendoza Dillon. As Gary told his new staff, "Having been exiled on the far periphery of American pop culture, as well as business and marketing agendas for decades, ethnic America today defines its epicenter."

Other key hires at Bravo in early 2005 that reshaped top management include Mark Sadowski as chief financial officer, Mercedes Colon as VP, director of human resources and Kathy Whitlock, as VP, managing director as well as the promotions of Nilda Velez and José E. Arandia to VP, managing directors. In addition, in recognition of her increased role, Linda De Jesus-Cutler, president of Bravo since 2002, added chief operating officer to her title.

In 2004, Bravo's new account wins included Foster Farms, Visa and Time Warner/ Roadrunner. Bravo garnered the title Hispanic Agency of Record with Lifetime Television and Miller Brewing Company.

Notably, Bravo is celebrating its twenty-fifth anniversary. Looking ahead to 2005, The Bravo Group will capitalize on the new American mainstream emerging, as, in aggregate numbers, multicultural Americans will comprise this new majority in just a few decades. This seismic shift in American demographics is already being felt today in designated market areas and younger demographic segments where the majority already has shifted to non-Anglo Saxon ethnic Americans. ■

Cohn & Wolfe

In its second year of a new leadership team, Cohn & Wolfe continued to outperform the market with significant growth, again beating its worldwide financial plan. The agency's expertise and focus on brand building has won it several high-profile clients regionally and globally including American Express, O_2, Diageo, Serono, Genentech and Starbucks.

Cohn & Wolfe's position as the industry's only "big-tique" allows it to compete with large and small shops, offering big agency resources with the creativity and service of a boutique. Cohn & Wolfe maintains its creative reputation through on-going creative training throughout the organization. The agency helps clients find solutions for building and defending brands in healthcare, consumer products and services, technology and business-to-business companies.

Cohn & Wolfe's mission to be "best in market" has propelled key offices in Europe and the US to become local leaders, which has reinforced the global strength of the organization. It plans to continue its high organic growth rate, but is also planning to grow through acquisition. ■

Donna Imperato
President and chief executive officer
Cohn & Wolfe

Robinson Lerer & Montgomery

In 2004, Robinson Lerer & Montgomery, a New York-based strategic communications company, once again produced strong results. In corporate positioning and strategic marketing campaigns, crisis management, regulatory and governance issues and financial transactions, the firm continued to build its reputation for high-quality strategic communications advice and services to the senior managements of leading domestic and international companies. ■

Linda Robinson
Chairman
Robinson Lerer & Montgomery

Brand Buzz

In 2004, Brand Buzz continued to thrive. Two of Brand Buzz's founders were named to lead the agency: Rick Eiserman as CEO and Jennifer Kohl as COO. The agency brought in both senior creative and brand planning talent.

It was a year of significant expansion. Growth came from both existing clients and new ones. LG Electronics consolidated all its US ad duties to Brand Buzz, which means the agency now handles consumer electronics, mobile phones and appliances. Brand Buzz added the New York Sports Club, as well as assignments from the HBO and Discovery cable channels. Twinings Tea awarded its advertising and promotion assignments to Brand Buzz, marking the first time the London-based client is supporting the brand in the US and setting the stage for the company's 300-year anniversary next year. ■

Grey Global Group

Kang & Lee

2004 was a "banner" year for Kang & Lee Advertising. On the new business front, the agency won new accounts from AT&T Wireless, TD Waterhouse and a new creative assignment from Western Union, HSBC, and Oxford Health Plans. In July 2004, Kang & Lee relaunched its agency website (*www.kanglee.com*) which has become the top online destination on the web for information about Asian American marketing. In the first nine months, the site has registered over 1.1 million hits from over 13,000 unique users. More than 700 marketing and advertising executives have registered on the site, and the agency has pitched numerous new business opportunities from relationships first forged online. In 2005, Kang & Lee celebrates its twentieth anniversary as the pioneer in Asian American marketing. ■

Eliot Kang
Founder and chief executive officer
Kang & Lee

The year 2004 was extraordinary for Grey. We won new accounts in every region of the world. We grew with outstanding clients by advancing their business. Our work bristled with intelligence, startling wit and unique communications ideas. We continued to invest in people and capabilities that expand our service offering. As a result, Grey had a very good year and, even more important, most of our clients did well.

We also took an historic step for our future, our people and our clients. In September, we announced we were joining forces with WPP. We concluded our merger in March 2005, staying one Grey group of companies, simply structured as a separate brand and singularly focused on our clients' business, as always.

We are delighted to be part of WPP. Our new partnership makes both companies stronger. It presents exciting new opportunities for our clients, giving them prodigious new resources, and for our people, enhancing their career opportunities and making Grey a more powerful company overall. In addition, both companies have many values in common. We both believe, for instance, that the quality of our thinking and our creative work are paramount to our clients' success and, as a result, our own.

What made Grey so attractive to WPP, we believe, is our unique set of core strengths:

- Smart, dedicated, highly talented and client-focused employees.
- A global network spanning over 80 countries and four geographical regions headed by outstanding, empowered leaders.
- One strong, top-tier global company in each important communications discipline, led by remarkable entrepreneurs who know each other well and understand the value clients place on coordinating and synchronizing all marketing efforts on behalf of their brands.

Ed Meyer
Chairman and chief executive officer
Grey Global Group

■ Some of the largest and best clients in the world – businesses that believe in the power of Grey people to build their brands.

Our history

Grey has come a long way from the little studio started with a $100 loan in 1917 by an intelligent, street-savvy entrepreneur not quite 20 years old. By the time I arrived in 1956, it had become a mid-sized US private advertising agency. Grey began to assemble an impressive roster of national and then multinational clients by making their brands into household names. Today we work with such powerhouse marketers as Procter & Gamble, GlaxoSmithKline, Nokia, Warner Bros., BAT, Wyeth, BellSouth, Diageo, Novartis, Volkswagen, Boehringer Ingelheim, Pfizer and Adobe, to name a few.

We took Grey Advertising public in 1965, our stock selling at $9.75 per share. Over the next four decades, we built our network, discipline by discipline, country by country, and Grey grew to become one of the largest global marketing communications companies in the world. In 2000, we established Grey Global Group as a holding company to serve as the parent of all our communications properties.

From 1965, our first year as a public company, to 2003, the year of our last annual report, our revenues grew from $18.6 million to $1.3 billion. On March 3, 2005, the last day our stock traded, its final price approached $1,200 a share. That was a very proud day for all the people who had helped build Grey and all our companies over the years.

Our companies

We have only one top-tier company in each of the communications disciplines needed to touch consumers today. As a result, our people across all disciplines communicate easily, share a common culture that is uniquely Grey and work together like a strong, enthusiastic family. We believe this collaborative structure has been essential in servicing our clients at the highest possible level and gives us a special advantage in delivering strategically coordinated messages across all the critical consumer touchpoints. This experience positions us well to work collaboratively with WPP companies now that we are part of the Group.

Here are highlights of each of our companies.

Grey Worldwide

Grey Worldwide is one of the ten largest advertising agencies in the world, with offices in over 80 countries. It has one overriding focus: to produce truly great creative work for our clients, to produce work that soars, makes us proud and fosters the brand relationship with consumers – work that helps our clients prosper. Key clients include Procter & Gamble, GlaxoSmithKline, Nokia, Wyeth, Brown & Williamson/BAT, Volkswagen, BellSouth, Diageo, Novartis, Sara Lee, Panasonic, Olive Garden, 3M, Canon and Kmart. Since 1917, it has built some of the best-known brands in America and the world with persuasive creative ideas. We are proud of our creative from around the world in 2004: it includes some of our best work ever.

MediaCom

MediaCom is one of the world's largest strategic media planning and buying companies. We provide business-building media solutions for some of the world's largest advertisers, including Volkswagen, Nokia, GlaxoSmithKline, Procter & Gamble, Warner Bros., Shell, BAT/Brown & Williamson, Pharmacia & Upjohn, ConAgra, Hasbro, Cendant, LVMH and 3M. We expect MediaCom's future to be even brighter as part of WPP's GroupM.

Grey Synchronized Partners

It's never been more important to optimize the power of the brand message than in today's fiercely competitive, increasingly fragmented marketplace. Grey Synchronized Partners combines and leverages the multi-channel marketing spectrum covering relationship marketing, brand development, point-of-decision marketing, sales promotion and interactive marketing – and simplifies the management of these complex programs for clients. GSP includes Grey Direct, Grey Interactive, G2 Worldwide and the J. Brown agency.

Grey Global Group

Grey Direct
Grey Direct is a global leader in relationship marketing and ROI optimization. With capabilities in 35 countries, Grey Direct provides profit-generating offline and online direct marketing solutions to a wealth of leading companies, including GlaxoSmithKline, United Airlines, Nokia, Xerox, BellSouth, Pfizer, Procter & Gamble, Oracle, Novartis and Adobe.

Grey Interactive
Grey Interactive offers interactive marketing solutions in online branding, relationship marketing, e-commerce and advertising. Grey has interactive capabilities in 32 countries. Major clients: Deutsche Bank, Zurich Insurance, Melitta, GlaxoSmithKline, Oracle, UBS, Schering, Harris Direct, Kmart, Liz Claiborne, Mars, Inc., Novartis (Gerber), Procter & Gamble, Progressive Insurance, E-Plus, Coca-Cola, Deutsche Post, Volkswagen and Loyalty Partners Payback.

G2 Worldwide
G2 Worldwide is one of the fastest-growing companies in brand development and point-of-decision marketing. It won over 40 creative awards in 2004. G2 has offices in 39 countries. Major clients include BAT, Procter & Gamble, GlaxoSmithKline, Coca-Cola, BellSouth and Kmart.

J. Brown
J. Brown develops sales promotion and marketing programs that reach consumers in-store, where the majority of brand decisions are made. It offers clients a full range of creative and strategic services focused on the joint interests of both manufacturers and retailers. Major clients include Kraft/Nabisco, Dairy Management, Diageo, American Egg Board, Bic, Gerber, Pfizer, Rayovac and Remington.

Grey Healthcare Group

Grey Healthcare Group is one of the world's leading healthcare marketing agencies. GHG's global capabilities include advertising, branding, DTP/DTC communications, medical education, e-commerce/new media programs, publications planning, consumer healthcare research and contract sales. GHG deepened its offerings in 2004 with several strategic acquisitions: full-service agencies s&kGrey in Germany, Grey Healthcare Sorento in India and Tokyo-based Grey Healthcare Japan; and the award-winning medical illustration company, Hurd Studios.

In addition, GHG won one of the industry's largest and most sought-after assignments, Exubera, co-marketed by Pfizer and Sanofi-Aventis; won *MedAd News'* 2005 Best Professional Advertisement for Wyeth's Refacto – and was nominated for 2005 Agency of the Year. Major clients include Allergan, AstraZeneca, Aventis, Boehringer Ingelheim, Eli Lilly, Forest Laboratories, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Pfizer, Procter & Gamble and Wyeth.

GCI Group

GCI Group is a global leader in the public relations industry with deep expertise in five practices: healthcare, corporate, consumer marketing, technology and media relations and winner of *PR Week's* Award 2004 Campaign of the Year for its work on behalf of Medtronic. The firm serves a broad base of multinational consumer clients including Cingular, Dell, Lowe's, InterContinental Hotels Group, RadioShack, Schick, Boehringer Ingelheim and Starbucks.

Alliance

Alliance is a leading entertainment marketing and strategic partnership agency. It develops high-profile branded entertainment programs in the worlds of motion pictures, television, music and live events. Alliance also develops strategic partnerships for brands to increase their communication pipeline and build brand relevance in the marketplace. Alliance executes all the programs they create while pairing

clients with some of the world's most popular entertainers, entertainment properties and brands.

Major brands include Cover Girl, Motorola, Clairol, Hasbro, Mercedes-Benz, Pantene, Pepsi-Cola, Max Factor, Pringles, American Express and MGM Mirage. Alliance is the recipient of many industry accolades including Emmys, Tellys, Platinum Records and American Business Awards.

WING Latino Group

WING Latino Group is a full-service marketing communications company specializing in targeting the ever-growing and evolving Latino market in the US. It is a community of multicultural intellect and talent collaboratively working around new ideas across advertising, media planning and marketing disciplines. WING Latino handles some of the world's most important clients, including Procter & Gamble, Kmart, Panasonic, Diageo North America and Allianz Life.

G WHIZ

G WHIZ is an entertainment-driven advertising agency specializing in making brands meaningful and desirable to the youth market. Its clients' target audiences range from kids and teens to 20-somethings. G WHIZ works for a wide range of prominent companies including Progressive Auto Insurance, Dairy Queen, US Cellular Wireless, Topps Confections, Cards & Toys, 3M Kid's Products, Kid Designs, Zapf Creation Dolls, Konami Video Games, K'Nex Toys, Majesco Video Games, SNK Video Games, Dessert Beauty, Clean Fragrances, Lip Fusion and Kaplan Test Prep.

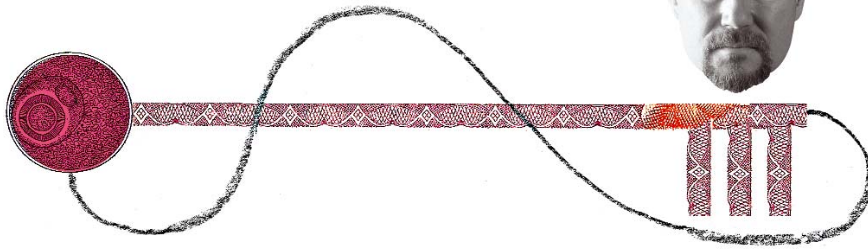
Our people

Outstanding people joined us in key management positions in 2004. In North America, we energized our creative drive at Grey Worldwide when Tim Mellors, who had been chief creative officer of Grey London in the late 1990s, rejoined us as agency chief creative officer for the region. In the EMEA region, we enriched London's creative flair by promoting executive creative director David Alberts to the new position of chairman/ECD, and appointing Karen Ellis to the new position of European creative director/Beauty. In Asia-Pacific, we significantly strengthened regional leadership with the appointment of Mike Amour, previously EVP/global account director on Mars, to CEO of GGG Asia Pacific.

In summary, 2004 was a year of achievement and anticipation. I have every confidence we can continue to thrive. I also believe our new relationship with WPP will make us stronger. In my view, our greatest strength is our people – their remarkable talent and ability to build our clients' brands and advance their fortunes. Their imagination and passion continue to inspire me in my forty-ninth year at Grey. ■

Ed Meyer

Andy Berlin
Chairman and chief executive officer
Red Cell



Red Cell

Red Cell shared center stage as a key creative resource in the teams WPP applied to a number of important worldwide new business pitches in 2004, including HSBC and Samsung. Reflecting the network's flexibility and entrepreneurial character, its offices were also busy adding meaningful assignments at the local level.

This demonstrates the duality of Red Cell. It competes against traditional global agency networks when the opportunity is presented, while at the same time offering clients valued creative and strategic thinking from local agencies that are recognized as top-tier players in their markets.

Red Cell's ability to succeed both globally and locally is due to the marriage of the entrepreneurial nature of the people in its offices and their ability to augment that spirit by utilizing the deep resources of WPP. Red Cell's flagships remain largely under the direction of their founders, who sustain the spirit, productivity and creative excellence that made it successful in the first place. Clients are presented with an array of first-generation entrepreneurs collaborating to create a more nimble alternative to big networks and one that is also distinct from conventional creative networks.

In addition to playing a key creative and strategic role in WPP's HSBC and Samsung wins, Red Cell's flagships continue to attract new clients and new assignments from current clients.

In the US, **Berlin Cameron/Red Cell** extended its relationship with Coca-Cola with the launch of C2 last year, and continued to create advertising for Coke's flagship Classic brand. The office also added lead creative and strategic responsibilities on Samsung's global branding business. In addition to HSBC, **HHCL/Red Cell** also won impressive assignments from the British government's Central Office of Information and from UK retailer BHS.

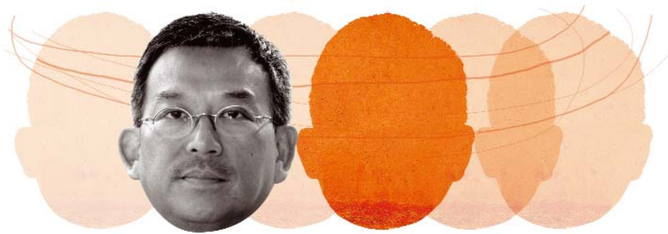
In Paris, **Les Ouvriers/Red Cell** added assignments from multinational clients such as Manpower and DeBeers and has been appointed to introduce Ocean Spray cranberry juice in France. In Italy, **Red Cell Milan** added business from Yamaha, Cameo (the Italian branch of German-based Dr. Oetker Group) and Mitsubishi Electric (air conditioning).

In Latin America, Red Cell's recently minted Buenos Aires office, **WM/Red Cell**, has won assignments from Coca-Cola in Argentina and regionally in Latin America, and has won Nextel and Unilever business in Argentina. Meanwhile, in Asia Pacific, the Batey network added the Red Cell name to its identity, re-branding itself as **Batey/Red Cell** and further cementing the network's presence in this key growth market.

Red Cell management is committed to refining and strengthening its offer as WPP's "micro-network". This means developing and adding to the talent pool of the agency, cultivating business across the network when it makes sense for clients, and enhancing the reputation and client rosters of the agencies that collaborate to give Red Cell its unique culture. ■

Andy Berlin

Jeffrey Yu
President
Bates Asia



Bates Asia

In 2003, we set our objective to refocus, refresh and rebuild Bates Asia. 2004 has been the year of rebuilding in earnest – in every way we can.

In doing this, we have been very conscious that of the BRIC countries (Brazil, Russia, India and China), two are in Asia. As an Asia-focused agency group, we have an increasing strength in the two empires of Asia's future growth – China and India.

In India, our rebuilt agency led by new CEO, Subhash Kamath, is applying the Bates recipe of local insight and world-class creativity with great success; and mid-year our planned merger with Enterprise Nexus will move us well up into the top 10 ranking.

Meanwhile in China we continued to win both local and global business; for the latter most notably as a key component of Team HSBC, HSBC's new credit card joint venture with China's Bank of Communications. As we move forward, China and India will remain strong points of focus.

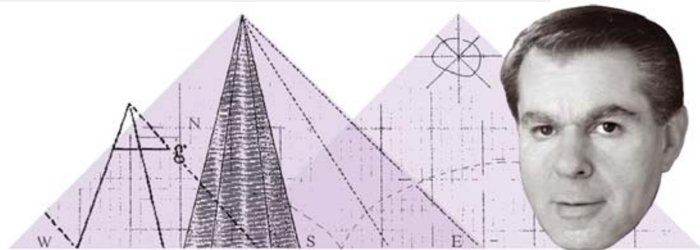
As an Asia agency, we take pride that Asia is now an export market for creative solutions. In 2004, Bates Asia developed creative work for international clients including Nokia and its fashion and mobile entry phone. The TV and print work was shot in Brazil by fashion icon David LaChapelle, and is running in all regions of the world.

Asia's role as an emerging technology center is another focus for us. We created a new practice, Bates Asia Technology, in conjunction with other WPP technology agencies: JWT Technology in the US and Banner Corporation in the UK. Together we won the Texas Instruments global business. Our intention for this global alliance is to bring global technology brands to Asia, and promote the emerging Asian technology brands to the world.

Finally, we have set in motion the merger of 141 Asia with Ogilvy Activation to form the biggest activation network in Asia. The new 141 will provide expertise in the areas of sales promotion, event marketing, viral marketing, fieldwork marketing and trade marketing. This unique network is already attracting the attention of new clients, and pioneering a new area of marketing and communication that will continue to grow in importance in this part of the world. ■

Jeffrey Yu

Irwin Gotlieb
Chief executive officer
GroupM



Media investment management

GroupM

GroupM, the world's leading full service media investment management entity, is the parent company for WPP's consolidated media assets which include Mediaedge:cia and MindShare. Media has always been particularly scale-dependent, and GroupM was designed for the intelligent management of scale in order to generate benefits for our clients and the companies we operate. Scale allows for greater investment in systems, research and insights, as well as in practice and talent development. Most importantly, our scale in combination with our deep marketplace knowledge and strong vendor relationships, allows us to negotiate and trade more effectively on behalf of our clients.

2004, only the second year since our formation, was a remarkable year. Mediaedge:cia and MindShare each enjoyed outstanding success, as detailed by the respective managements of each company in the following sections. They didn't just win business. Each company won massive, high-profile assignments from the world's most sophisticated and media savvy clients, as well as significant consolidations on existing clients. The latter are in many ways even more rewarding, because they reflect on the reality of our performance and the benefits we deliver. As a result, we continue to enjoy a terrific record of client retention. We are a reflection of the sophistication of our clients and our companies can be extremely proud of what has been and what continues to be accomplished.

Our performance is a strong validation of the strategy behind GroupM. It is a reflection of the efforts by the management teams at each of our companies, who with their colleagues, participated in its design and implementation.

In 2004, we also successfully launched a new network, MAXUS, which has taken its place alongside our two current networks, allowing GroupM to more effectively manage growth into the future. Powered by GroupM, MAXUS is enjoying the full advantage of the shared resources within the Group.

In addition, early in 2005, we made a strategic minority investment in KR Media, the new Paris-based media investment management company, founded by Bruno Kemoun and Eryck Rebbouh. We have great expectations concerning the success of this new venture.

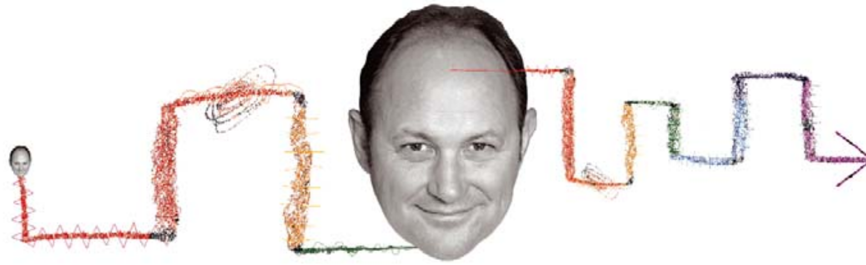
As we look ahead to 2005, we are excited to welcome the strong talent, capabilities and incremental scale of MediaCom as it transitions into GroupM during the course of the year. With MediaCom, we are the largest media agency group in the world by a significant margin based on RECMA estimates.

Our practice will continue to be challenged by the volatility of the media communications landscape in which we operate. One can scarcely pick up a trade or general market journal without seeing an article that speculates on the impact of fragmentation, TiVo/DVR, VOD, mobile platforms and other changes on media consumption behavior and communications effectiveness.

Consequently, we continue to deal with issues as diverse as communications mix modeling – where our ongoing collaboration with our colleagues at WPP's Kantar Group will ensure that we provide the most robust and innovative solutions – and breakthrough strategy and implementation. These enormous challenges help us develop and attract remarkably talented people who can flourish in this environment. It is they who have so effectively contributed to our performance to date, and it is they who will keep us pushing the leading edge of our business as we move forward. ■

Irwin Gotlieb

Dominic Proctor
Chief executive officer
MindShare



MindShare

At the end of last year's report I said that we were confident of another record year in 2004. Well, we were not to be disappointed! 2004 was a fantastic year for MindShare and our sister companies. We grew more than any other competitor, we retained all our significant clients, we retained our key talent, we retained our Global Media Agency of the Year position and we had a lot of fun along the way.

At the heart of this success is our strategy to encourage the twin trends of consolidation and globalization of clients' media accounts. Increasingly, the work we do for clients is the enduring backbone of their global marketing efforts, and in 2004 we began to achieve our ambition of being lead marketing partner for some of those clients.

2004 was our seventh year, but as we "grow up" we continue to recognize the need to continuously expand our range of services, both in response to the market and, occasionally, to change the market. So we have made very significant investments in new services, specialisms and infrastructure to see us through the next seven years and beyond.

We launched MindShare Entertainment to better connect our clients' brands with relevant content opportunities. Based in Hollywood, this business is rapidly becoming a global network of specialists, again reflecting the global nature of our business.

The same is true of Performance, our sponsorship and sports marketing business, which has shown extremely rapid growth in 2004 and will develop a global network in 2005.

We invested record amounts in training and development at all levels of the company, with a growing emphasis on cross-border training. 90% of our managers have been with us since the start and we want to ensure that the next generations of managers are appointed from within.

There is no doubt that our greatest competitive strength is our global network and the way it works as one. Working in that way is incredibly invigorating and rewarding for our people but it needs constant investment in infrastructure, so we have strengthened our global client service, talent management, media trading and IT capabilities to help meet that challenge.

And of course we invested in developing and expanding our key analytics and research capabilities. Some of the most valued work we do is in the areas of marketing analytics and consumer insights, reflecting the fact that creativity and accountability have always been the twin pillars of our company, and always will be.

Media is a wonderfully interesting sector to work in as technology and imagination drive change and opportunity. We thank everybody in our company for making 2004 another record year and we thank our clients for keeping the faith. ■

Dominic Proctor

Charles Courtier
Executive chairman
Mediaedge:cia

Mediaedge:cia

"Sheer momentum" best describes our performance in 2004. It was our best-ever year with significant client wins all around our global network. New clients include powerful brands such as Ferrero Rocher, Heinz, Paramount, Rémy Cointreau, Toys"R"Us and WeightWatchers. We have also been successful in developing our existing clients across geography and across different communication disciplines.

Our momentum continues to build and has already delivered, within the first three months of 2005, our largest-ever client win – Cingular in the US. We've also enjoyed some important breakthroughs in Asia Pacific, Central Europe and Latin America, including the appointment by existing client, Novartis, across all their business units in three continents. It's all evidence of our ambitions and enormous potential.

Global, regional and local clients are attracted to our distinctive Communications Planning and Implementation approach because it unites brands and consumers through ever more engaging, enriching and relationship-building experiences that generate genuine commercial value for brand owners. Everybody in marketing knows that consumers want to be more than just passive recipients of brand messages: they want brands to play an active role in their lives and want to participate, to have real and important relationships with them. Clients need and want ideas and effectiveness.

At Mediaedge:cia, we're in the enviable position of being able not only to *develop* strategic communications plans to meet these consumer needs but also to *deliver* on them through our extraordinary set of implementation capabilities and to *measure* our performance on behalf of brand owners. Our own performance has been good, the results for our clients even better.

Clients also benefit from our extensive global reach – 4,000 highly talented people in 199 offices in 79 countries – and from us being part of GroupM, the world's leading media investment management group.

Our clients are already experiencing the kind of impact we can have on their business. Our challenge now is to ensure that we can deliver the best of Mediaedge:cia with our rapidly expanding range of creative, analytical and implementation capabilities to all of our clients, wherever and whenever they need us.

To do this, we started two major initiatives during 2004. These life-changing programs will enable us to deliver to our clients an unparalleled breadth and depth of expertise and disciplines:

- We are significantly enhancing our *Interaction* (CRM, online search and marketing services, including production) and *Content* services (sponsorship and event marketing, programming, branded content, entertainment and cause-related marketing) and already have more than 500 specialists exclusively working in these two areas. These developments are enhanced by a fast-growing modelling business focused on return on investment.
- We launched the *Mediaedge:cia Navigator Academy* – a major professional development program on Communications Planning designed to empower our people to exploit fully our unique *Navigator* operating system on behalf of our clients. Some 400 people a year across four continents will pass through the five-day *Academy* course, including all our senior management team.

Mainardo de Nardis
Chief executive officer
Mediaedge:cia

2004 also saw us bring in significant fresh talent and skills from other parts of the industry – we're hungry to learn! – and also promote or move around our existing top talent so that we can share expertise and experience and have the right people in the right places.

All our people are focused on attracting new clients and especially on working closer, harder and more effectively for our existing clients so we can become more valuable to them, and this results in us managing a greater share of their investment in media and communication services. Evidence of this is our developing relationships with a number of our key clients including Beiersdorf, Citibank, DHL, Energizer, Henkel, Sony Ericsson and Wrigley's.

Our work was recognised last year not only by clients but also by our peers in the industry with many global, regional and local awards for effectiveness and creativity. This was acknowledged by independent surveys from Gunn and RECMA positioning us at the very top in terms of awards won across different markets and in vitality against our competitors.

Mediaedge:cia had a great 2004. We've started well in 2005. But we're hungry and we're ambitious. There's more we can achieve. Most importantly, we have momentum. ■

Charles Courtier and Mainardo de Nardis

Eric Salama
Chairman and chief executive officer
The Kantar Group

Information, insight & consultancy

The Kantar Group

We – and more importantly our stakeholders – had reasons to be satisfied in 2004. Our financial performance was good, our clients experienced more innovation and consistency in delivery than ever before, our people benefited from greater investment in development, training and focus on their careers, and we executed well against our long-term strategy.

Overview

Financially, we did well in 2004. Our margin performance was particularly good in the light of increased price competition and procurement initiatives from clients. Our margins are now at higher levels than all of our major competitors in ad hoc research (TNS, Ipsos, Synovate, NOP). However, we are still at lower margin levels than some other companies such as VNU and GFK and, more importantly, lower than we ourselves know we should and could be.

We can be satisfied – though not pleased – with our revenue increase. More than anything else this measure captures the extent to which our offer is suited to client needs, the extent to which we are price competitive, the extent to which we deliver against our promises, the degree to which we innovate with our clients.

On the softer side, a number of our companies were publicly recognised. **Millward Brown** was recognised as Research Agency of The Decade by the US Advertising Research Foundation, and was named agency of the year in Mexico and Poland; **Center Partners** won numerous awards for its call centre performance; **BPRI** became only the second research firm ever to win the Queen's Award For Enterprise. **IMRB** was yet again the dominant player in the fast-growing Indian research market.

Client needs and Kantar strategy

In last year's Annual Report we wrote of clients who want insights which are actionable, timely and value for money; and of clients who complain of an industry that is too focused on data, which doesn't enable them to connect deeply with their customers and which doesn't make as big a contribution to their business as they need. A year on, clients feel the same way but even more so. Decision makers in client organisations are still not being helped as much as they should and, not surprisingly, the usefulness and cost of much research is being questioned.

For us this represents an opportunity. We know that the portfolio of companies within Kantar is unique within the industry – specialist consulting companies, research agencies with deep specialist expertise in particular sectors and methodologies, and a talent pool which is more diverse than anyone else's. We also know that we have been successful with clients such as Vodafone in helping shape major decisions – in regard to their handset strategy, their go-to-market strategy, pricing, communication approaches and tactics, geographical expansion. Our strategy does not need changing – it needs more focus and consistency in execution.

And so, a year on, we are focused on the same issues – creating an infrastructure which is world beating and which can generate economies of scale, developing 'must have' offers for our clients, improving the quality of our talent pool through training, development and recruitment. Our task will continue to be a better and consistent execution of our strategy so that our clients and people feel a better reality, not just hear better talk.

So how are we doing in each of these areas?

Our infrastructure is improving

2004 saw the creation of The Operations Centre (TOC) in the UK – a consolidated capability under single management covering all our aspects of scripting, data processing, fieldwork. This initiative is crucial in allowing us to invest heavily in technology and operations and deliver to clients the high quality, low cost data which they desire. We are currently rolling out TOC in the US and aim to have TOC globally operational by 2007.

Sharon Potter is taking on a new role as global CEO of TOC and we have assembled a team of some of the finest operations people around.

At the same time we have accelerated our growth in panels. **Lightspeed** – our internet panel operation – expanded its panel to cover 16 million household members around the world and continued its reputation for quality. Over eight million surveys were carried out through Lightspeed during the year. WebSurvey – our specialist healthcare research operation – has increased its physician panel in US and Europe to over 75,000 and has added panels of managed-care professionals, nurses and pharmacists.

And we began to leverage and integrate **Cannondale's** (which joined the Kantar Group in late 2004) Shopper Genetics (frequent shopper) databases into a much wider range of category management and channel-related work.

Our offers are getting more compelling

Two strands permeate everything we are doing. We are improving our existing offers and we are constantly on the lookout for ways to innovate.

In terms of the former, all of our companies and client-facing teams are focused on improving the quality of the insights we are generating, bringing the insights alive in terms of the way we communicate them to clients and making sure that they are delivered in such a way as to enable decision makers to use them.

And, in terms of the latter, our innovation this year has included:

- The setting up of **Added Value Group** (through the merger of Added Value, icon and Diagnostic Research) and making sure that their values of passion, energy and going beyond the obvious permeate everything they do.
- The development of **Channel Connect** and **Optimor** as stronger offerings from Millward Brown in the areas of media and spend optimisation.
- The extension of Cannondale's **Power Ranking** surveys, which are used by all of the world's leading manufacturers to assess their relationship with the trade, to areas such as foodservice.
- The development of BPRI's global opinion formers panel.

The Kantar Group

■ New web-based ways of delivering retail insights from **Management Ventures**.
■ A leading-edge web-based system of product testing and a PDA-based way to measure consumption from **Research International**.
■ New syndicated oncology products and services from **Mattson Jack** and **Da Vinci**, and a new syndicated healthcare division (IMAP) at **Ziment**.
■ Extending TGI as a tool for improving media planning into more than 50 markets.
■ Combining **Henley Centre's** approach to segmentation with OgilvyOne's analysis of behavioural data to help clients get more robust and actionable insights.

In parallel, at an operating company- and Kantar-wide level we have created stronger global account management structures. These structures are designed to help our clients roll out worldwide approaches in areas such as advertising copy testing, concept testing and segmentation, while allowing them to understand nuances in their customer needs at a local level. Together with the acquisition of businesses such as Cannondale, MaPS, Oracle (a leading research firm in China) and the development of **AGBNielsen**, the world leader in television audience measurement, we are in an excellent position to address emerging client needs and to do so globally.

Our talent pool is stronger

We tell our clients that their brands are built through the quality of the interactions which they have with their customers – and it is no different for us. We have thousands of people and they each have hundreds, if not thousands, of interactions with our clients. Each one of those is an opportunity to understand the client better, to provoke, help, inspire. So, over the last two years, we have placed great emphasis on training and development, on individual career focus, on improving the quality of our leadership capabilities, on bringing in people with talents and capabilities we do not have enough of.

Our Kantar-wide survey of all employees revealed a group of people who are passionate about their work, loyal to their company and feeling stretched and challenged. It also revealed areas in which we must improve, and we owe it to our people and our clients to make sure that we do all the things we talk about.

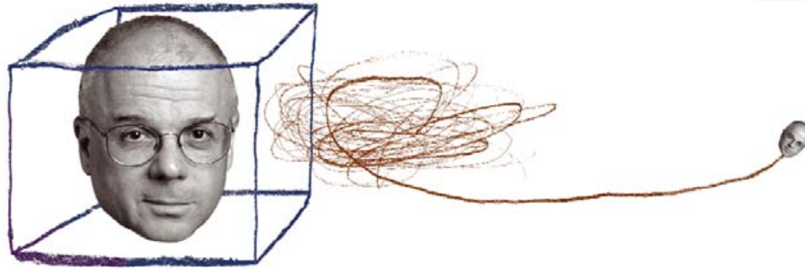
Full circle back to clients

Unlike the advertising business, we do not often see our output displayed publicly. But we know that 2004 was a good year in terms of the impact that our work has had on clients: in setting their strategic agendas; shaping their communication; developing new products and services; optimising their trade and media spend; helping them deliver higher productivity from their employees; deepening the loyalty and repurchase rates of their customers; setting prices for their products and services which have raised margins without losing customers; and setting key performance indicators (KPIs) against which they are measured internally. We can take great satisfaction from the private successes we have had in these areas.

Our aim continues to be to extend the range of occasions and the frequency with which we can celebrate success together with our clients. ■

Eric Salama

Howard Paster
Executive vice-president
WPP Public relations & public affairs



Public relations & public affairs

Overview

WPP's public relations & public affairs business performed well in 2004. The sector had its first increase in revenue in four years, bringing an end to top-line erosion that began with the recession in 2001. Even more encouraging, for the second year in a row the public relations & public affairs businesses increased their margin appreciably – in this case by more than 1% so that the sector's margin in 2004 was greater than 14% and consistent with the Group-wide margin.

Public affairs and financial communications continued to be standout performers in the sector. In the former group – public affairs – Quinn Gillespie performed well in its first full year in the Group, as did BKSH which has been with WPP since the merger with Y&R five years ago. Finsbury, Buchanan, and Robinson Lerer & Montgomery continued to do well in financial and corporate communications. As before, these single office agencies, along with the extremely successful Penn, Schoen & Berland, deliver our highest margins in the sector.

Corporate communications, including business-to-business marketing, reputation management, crisis and other special situations, continues to be a major factor in our public relations businesses. Burson-Marsteller had a highly successful 2004 with clear distinction in this area, and Hill & Knowlton strengthened in the category in the last quarter of 2004.

Healthcare, including pharmaceuticals, and consumer marketing were major factors in the continued strong success of Cohn & Wolfe and Ogilvy Public Relations in 2004.

Among business sectors, pharmaceuticals and technology continue to be crucial to our public relations businesses.

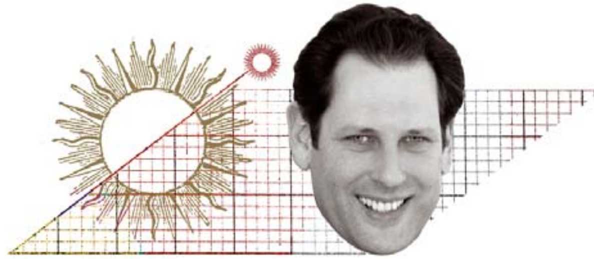
While the progress in 2004 vindicates WPP's confidence in the value of the public relations & public affairs businesses, and while we did meet our goal of improved performance in the past year, it is also true that this is a sector in which continued progress is essential.

As the sector strengthens, the demand for the best talent will accelerate. WPP is working at the parent company level and with the individual agencies to provide competitive compensation, professional growth, gratifying work experiences and fresh intellectual leadership to attract and retain the best talent.

We are also watching changes in client requirements closely in order to maintain our long-standing leadership in intellectual capital and innovative services. As clients confront a highly fluid marketplace they are looking to our PR agencies to help them navigate in uncharted waters. Our ability to meet that requirement, to be leaders and not followers will be tested in 2005 and will help determine if we can build on the success of 2004. ■

Howard Paster

Paul Taaffe
Chairman and chief executive officer
Hill & Knowlton



Hill & Knowlton

Although 2004 was a challenging year, Hill & Knowlton deepened its senior talent bench strength, which by the last quarter, directly led to significant new client wins, ensuring a solid start to 2005.

During the year, H&K secured new clients across all sectors and services, including Mary Kay Inc., ATA, Deloitte, Wal-Mart, and Yahoo! as well as the expansion of several long-time clients Allstate, Ford and Mazda in the US. Hollinger Inc. and Severstal Steel joined in Canada, the Almond Board of California in Asia Pacific and, in Europe, the London 2012 Olympic bid, MEAG Real Estate Management GmbH, and Microsoft. Latin America's roster grew with Sunbeam, Pfizer, Turner Broadcasting and Intel.

The company's key client portfolio continued to include HP, Motorola, Procter & Gamble, and MCI.

H&K's appointments and new hires were paramount in 2004, including designations of new regional and practice chairs, two new chief executives of a realigned Asia Pacific region, and others critical to its worldwide new business and practice functions. Andrew Laurence was promoted to chairman and CEO of Europe, Middle East and Africa, Elaine Cruikshanks was named director of the global public affairs practice, and Anthony Burgess-Webb moved to chief marketing officer.

Recognized China expert, James B. Heimowitz, joined as president and CEO of North Asia and Vivian Lines was named president and CEO of Southern Asia. Latin America reorganized and reinforced its operations in Brazil, Mexico and Puerto Rico, adding former newscaster Jennifer Wolff as general manager of Puerto Rico.

Responding to the market landscape and corporate governance issues, H&K looked to offering new services commensurate with client need. It reinvigorated its internal communications offer in two regions, with H&K Canada introducing a new change management service offering. H&K USA hired industry expert Barbara Edler to formalize its offer, Enterprise Change Communication, promoting an employees-first approach to help companies drive business success from the "inside out" with a focus on reputation, retention and results. Infusing a deeper dimension to its technology capability, H&K hired Josh Reynolds to lead an industry analyst relations service.

As well, carefully considered acquisitions and office openings enhanced the geographic reach of H&K. The firm acquired Sparks + Noble to enhance H&K Canada's already number one energy practice. Bolstering the US public affairs network, H&K opened a Tallahassee office, adding to the country's growing capital representation. Also, expanding its consumer marketing offer, H&K USA acquired Dome Communications, based in Chicago, whose founder Doug Dome was appointed head of creative services for the US company.

Serving clients in the highly competitive technology sector, **Blanc & Otus** focused its expertise in the four key practice areas of enterprise technology, digital entertainment, telecommunications, and venture capital. B&O's client roster included Agile, the Blu-ray Disc Association, Fujitsu Software, Hitachi Data Systems and Hyperion. During the year, it garnered several industry awards, including the 2004 PR Innovation of the Year from *PR Week*, a PRSA Compass Award for Best Business-to-Business Media Relations Campaign, and a Silver Mercury Excellence Award for Best Business-to-Business Campaign.

Wexler & Walker Public Policy Associates continued its growth with a 9% increase in revenue from 2003 to 2004. Adding depth to its bench and building on the addition of Jack Howard, former Deputy Assistant to the President for Legislative Affairs in 2003, WWPPA added James C. Capretta from the White House Office of Management and Budget. Capretta was the President's principal budget officer for Medicare reform as well as all federal education, health, income maintenance, labor and federal employee issues.

Penn, Schoen & Berland continued to expand its business briskly this year, opening a Seattle office to work on Microsoft. It added major new assignments for Verizon, McDonald's and Merck to major clients like Procter & Gamble, BP and Vodafone. The firm provides its clients with a combination of research and strategic marketing and communications advice. It also continued its political work with world leaders in the UK, Asia, Latin America and Africa. It is also making progress in media research, working to help position movies for major Hollywood studios, and test covers for over 40 magazines titles.

Hill & Knowlton deepened its China capabilities last year adding senior professionals in public affairs, government relations and integrated brand strategies. It expanded its five-year relationship with PetroChina and provided media training for China's State Council Information Office and the Mayor's Association. In celebration of H&K China's twentieth anniversary, H&K rolled out its *Corporate Reputation Watch* survey in that country, targeting Chinese business executives. Sponsored by H&K and leading Chinese business publication, *The Economic Observer*, the survey examined corporate executive level (C-Suite) perspectives on issues in China such as corporate reputation, corporate social responsibility, and corporate governance issues. And on the back of the firm's Global Cool Hunt, we partnered with *Seventeen* magazine in China to run a quantitative version that examined the "coolness" of both Chinese brands and Western brands in China among young people.

Industry awards exemplified the outstanding work done by the firm for its clients. Europe won several awards including the prestigious "Pan European Consultancy of the Year" by *The Holmes Report*, the *PR Report* awards for terre des hommes and easyJet and a PRCA Certificate for Excellence for its work with Vielle. H&K Canada was once again named Top 100 Employer. And industry veteran, Thomas Hoog, chairman of H&K USA, was awarded the Gold Anvil by the PRSA for his lifetime accomplishments.

In the true H&K spirit of giving and sharing, many employees contributed to the victims of the tsunami. The UK office provided some pro bono support for its client, the Government of the Maldives, and the company's John Hill Foundation has donated $30,000 to the Red Cross. The Washington DC office advised the Center for International Disaster Information on a global level and many other offices worldwide reached out to clients in the affected area offering support, assistance and goodwill. ■

Paul Taaffe

Marcia Silverman
Chief executive officer
Ogilvy Public Relations Worldwide

Ogilvy Public Relations Worldwide

After "turning the corner" in 2003, 2004 proved to be a year of growth and exciting opportunities for Ogilvy PR. We continued the quest for bringing on board the best talent in the business, put new leadership in place in Europe and Asia, expanded relationships with our top clients and introduced compelling new offerings. We also built on our relationship with Ogilvy & Mather Worldwide through *360 Degree Brand Stewardship*[SM], which is a true differentiator in the ever-competitive marketplace.

During the past year, we attracted senior counselors who are respected industry leaders. Among the top talent joining the firm in 2004 were Christopher Graves as the president of Asia Pacific, Chris Atkins as head of the global corporate practice and Kate Cronin as co-head of the global healthcare practice. 2004 also saw the promotion of Scott Kronick to president of China and the return of Michael Law to the US from Southeast Asia in the position of managing director of the California offices.

We had exciting client wins in all our regions and practices, including new assignments from LG Electronics, Bausch & Lomb, DHL, Hellmann's, Invest in France, Lenscrafters, National Cancer Institute, Pfizer, Seven Seas Multibionta, Sunglass Hut and Telefonica, to name a few. Our relationship with Unilever grew in the US, and was one of our many successes in consumer marketing. The practice experienced a resurgence under the leadership of Barby Siegel. Our work with Unilever is a strong example of partnering with our sister Ogilvy companies. Another is the work being done in preparation of the opening of Hong Kong Disneyland in 2005.

In addition to the wins achieved in 2004, we expanded our relationships with some of our key clients, including Cendant, CFA Institute, Dupont, FM Global, Hudson Highland, Microsoft and Scottish Development International. We have worked hard to create global relationships and we have them with half of our top 20 clients.

Last year, we introduced a Strategy & Planning division in the US, led by managing director Steve Dahllof. Over the course of the past year, it has grown to include senior counselors in all of our regions. The group has been a driving force in adding value to both existing clients and new business pursuits.

Ogilvy PR has long been known for creating some of the most effective social marketing campaigns from programs for HIV/AIDS to *The Heart Truth* campaign which won Best in Show at the SABRE Awards. This year we established a formal social marketing practice, led by Tom Beall, built upon the heritage and track record we have for developing ground-breaking programs.

Our entertainment offering, BWR, celebrated its twenty-fifth anniversary with the creation of a new product placement division. Leveraging on its contacts in the entertainment community, B|W|R Product Placement & Integration provides a resource to clients of all WPP companies looking for such a service. While the firm is known for representing some of the most well-known talent in Hollywood, B|W|R also represents a number of companies, including the new Wynn hotel in Las Vegas.

As our twenty-fifth year begins, we look forward to more success in producing great work for our clients. We also want to look back and thank some of our long-standing clients, including American Forestry and Paper Association, American Furniture Manufacturers Association, CDC, Chlorine Chemical Council, Merck, National Institutes of Health, Pfizer and Society of American Florists. All of these companies and organizations have been with Ogilvy PR for more than seven years; some for as long as 18 years. These long-term relationships, paired with our newer assignments and talented staff, gives us all great confidence that our next 25 years will surpass the success we realized in our first 25 years. ■

Marcia Silverman

Dave Allen
Chief executive officer
Enterprise IG

Branding & identity

Enterprise IG

In response to the challenging market conditions, Enterprise IG continues to place creativity and talent at the heart of our business. As a result, we have developed our multinational client base, adding projects from American Express and Sara Lee Corporation, while maintaining strong relationships with Unilever, Masterfoods, SABMiller and Vodafone. We have continued to attract and retain some of the best talent in the industry; Alan Brew and Alexander Schubert joined as Worldwide president and CEO Germany respectively, while John Mathers was promoted to CEO UK.

We have solidified our position as the global brand agency by focusing strongly on the philosophy that great companies and their brands are built on a *Compelling Truth*™. By continuously investing in the training of our people and the hiring of individuals from a diverse range of backgrounds we always provide our clients with innovative ideas that differentiate their brand and build lasting preference with all audiences.

The company now has a global network of 27 offices in 20 countries.

Europe, Middle East & Africa

Major European client assignments won in 2004 included those for Standard Chartered (UK), BP (UK), Castrol (UK), OMX (Sweden) and Super de Boer (the Netherlands).

However, trading was slow in most European regions throughout the year, partly as a consequence of the diminished volume of major corporate identity projects due to low M&A activity. One particular success was the award of Best Design Agency 2004, won by our Paris office. Endorsed by the French National Ministry of Culture, this honour is one of the most prestigious design awards in France. Our African business continues to be dominated by major local corporate branding projects. Major assignments on behalf of JD Group, ABSA, Daimler Chrysler, and SABMiller were completed. Our South African business won a Loerie Marketing Excellence Award and was Design and Integrated Agency of the Year. In the Middle East, the Dubai office continued to grow steadily, winning business both in the United Arab Emirates and beyond, with significant new business from Saudi Arabia and Kuwait. New projects gained included Al Raji Bank and Kuwait Cinemas.

The Americas

The Americas delivered a good performance by building on deep long-term relationships with clients such as Caterpillar, Cardinal Health, and American Express, and adding significant new clients including Owens-Illinois, AMD, Harley-Davidson and EDS. 2004 also marked a dramatic increase in client engagements that leveraged Enterprise IG's involvement with global clients such as Masterfoods, Vodafone, Reuters and Motorola.

Asia Pacific

2004 was a year of stability and growth for the region. Our offices in Tokyo and Bangkok performed especially strongly, in concert with solid trading in Hong Kong, China, Taiwan and Singapore. The new global partnership in Australasia to form Designworks Enterprise IG also introduced new leading talent to the region.

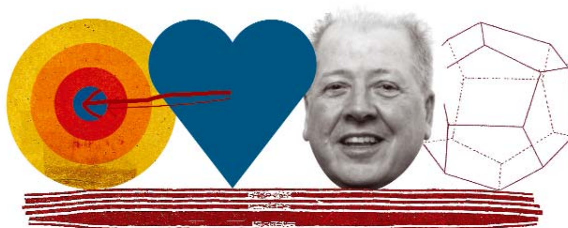
Corporate branding continued strongly with major programs across the region, supported by rapid growth in the retail brand experience and consumer branding sectors with new work for key clients such as Unilever, Diageo, The Coca-Cola Company, Nestlé, Motorola, Harley Davidson and Levi's.

The region's strong design capability gained recognition via award-winning work from Taiwan and Singapore with Designworks Enterprise IG picking up the *Design Week* global best packaging award in 2004.

Addison

2004 was an exceptionally successful year for Addison Corporate Marketing. The company demonstrated robust client growth during the year, winning 15 new clients including Anglo American, Equant, ING, London Stock

Rodney Fitch
Chairman
Fitch



Branding & identity

Exchange, Numico, Vodafone and Wincanton. In addition, the company continued to expand its relationship with existing clients AstraZeneca, BAA, Cadbury Schweppes, Syngenta and Unilever.

During the year a number of corporate reporting awards were also won including two League of American Communication Professionals awards for Syngenta and WPP, one CIB Best Annual Report Award, also for Syngenta, and the International ARC Award and Pro Share Best Annual Report Award for BAA.

Lambie-Nairn

Lambie-Nairn continued to win many of the most prestigious TV branding assignments awarded during the year. In particular, the company maintained the expansion of its US business by winning the project to refresh the brand identity for The Weather Channel, including not only the channel's on- and off-air identity but also the development of its advertising. Other major TV assignments included The History Channel and Discovery Kids, both of which were global assignments, as well LCI in France and the launch of AlHurra across 21 Arab countries.

Lambie-Nairn was also appointed by BT to create the brand identity for a new product and by Sainsbury's to refresh its brand identity and act as creative consultants to its business. Other projects during the year included the relaunch of the UK Government's online offering under the new name DirectGov, and work for the DTI on Digital Switchover.

The company also continued its work as the lead branding agency for O_2, a company that openly credits the 'brand', created by Lambie-Nairn, as key to its success. ■

Dave Allen

Fitch

2004 was our first full year as a member of the WPP community and, while challenging on several fronts, proved very satisfactory.

We have steadily integrated our 19 studios behind a One Fitch, one global studio strategy that has seen an increasing number of clients and projects serviced across several studios that work to common values and a shared sense of purpose. At the same time we have increasingly been able to align our retail-led, consumer-centric design offer with the needs of WPP community clients to beneficial effect.

In April 2004 we acquired RPA, a leading US retail design firm and have very successfully integrated this fine firm into our Ohio studio to create one of the leading retail design firms in the US.

The general upbeat tone in the firm has helped us win some impressive projects from new clients as diverse as The Russian Post Office, Boeing Aircraft, Cisco Systems, Unilever, Dixons Group and Gerber Baby Products. Equally, we value our continuing work with clients such as BAT, Bentley Motors, Vodafone, Sprint, Carhartt, Microsoft and Respironics, a US health product group.

Financially, we have also made considerable progress. We consciously reduced our revenues as we dispensed with unprofitable activities, reduced our cost base and improved profitability. The year ended strongly and 2005 has started well.

Our business is undoubtedly a happier place to be and the quality of our work, our awards and client satisfaction surveys provide evidence for this. The case for innovative design in the marketplace to help deliver consumer expectations has never been stronger. At Fitch we are full of optimism. ■

Rodney Fitch

Matt Giegerich
President and chief executive officer
CommonHealth

Healthcare Communications

CommonHealth

CommonHealth's most visible, powerful change in 2004 stemmed from the launch of our new, unified corporate strategy and identity.

*Collaborative Velocity*SM embodies the philosophy behind CommonHealth's new approach to business and is the tagline for the overall initiative. Our strategy directly addresses the complex new realities of healthcare marketing and the intensifying political, pipeline and profit pressures confronting our client base. The phrase itself is designed to capture the organization's unique ability to efficiently mobilize talent and resources across our 13 business units to create inspiring, integrated and impactful communications campaigns that reach every healthcare stakeholder.

Our rebranding effort has been met with overwhelmingly positive feedback and we're confident that CommonHealth's new approach to doing business is not only the right course of action for us, but reflective of a business model that will ultimately replace the fractured amalgam of agency clusters often seen on the service side of the business.

Our efforts continue to bear fruit. With great energy and focus from our talented employee base, in the past year we…

- Once again earned double-digit organic growth on prior year's base of business.
- Won and earned more new business than in any year in our history.
- Added 22 new corporate clients, including assignments from 3M, Boehringer Ingelheim, Bristol-Myers Squibb, Cephalon, Duramed, Genentech, Quest Diagnostics and Watson.
- Were assigned new work from each of our top-10 existing clients: Abbott, AstraZeneca, Berlex, GlaxoSmithKline, Merck, Johnson & Johnson, Novartis, Organon, Pfizer and Roche.
- Networked and integrated our activities better than ever before: more than half our new business wins involved two or more CommonHealth companies.
- Saw our consumer group, Quantum, named "DTC Agency of the Year" by *DTC Perspectives* magazine, for the second time.
- Won 53 creative awards.
- Launched Qi, our digital/interactive agency with client offerings ranging from online research through planning, development, maintenance and ROI analysis of interactive campaigns.
- Launched Altum, our fifth professional advertising/promotion agency, focusing on the specific communication needs of high-science brands.
- Helped brand and launch a continuing medical education offering on The Discovery Health Channel, providing continuing medical education programming on national television. The launch involved a collaborative team from five of our operating companies.

CommonHealth

Amidst the churn of a constantly unfolding marketplace, CommonHealth continues its quest to grow and stay at the forefront of healthcare communications. We remain intensely focused on client needs, creative problem-solving, and the innovative mix of new skills and services required to drive brand awareness, access and adoption.

For the coming year, we see accelerating needs in clinical pipeline consulting, high-science medical and scientific strategy, patient education and managed care marketing. These skills and services will grow and augment our current strengths in creative brand-building, advertising and promotion, media planning and buying, medical education, relationship marketing, interactive services and market research.

CommonHealth's united 35-year history of progress in healthcare communications – including strong, steady growth over the past five years – gives us a great deal of confidence and strength as we look forward. We have become more interdependent, more powerful and more productive as an organization over the past year and there is every reason to believe that the interconnected business model and culture we've created will prove even more successful for us – and for our clients – in 2005 and beyond. ■

Matt Giegerich

Specialist Communications

Overview

Specialist communications businesses performed well in 2004 by focusing on organic revenue growth and margin improvement, as well as reorganizing underperforming units.

We continued to advance strategically by:

- Further developing the brands of our strongest businesses.
- Collaborating with the larger group networks in response to increasing client demand for integrated services.
- Creating businesses in new marketing disciplines.

Andrew Scott
Chief operating officer
International Specialist communications

Interactive, promotion, and relationship marketing

VML substantially grew its leadership position at the intersection of marketing and technology in 2004.

Significant new business wins included Microsoft and Winn-Dixie. As part of Young & Rubicam Brands' Microsoft engagement, VML was awarded a key role with digital customer relationship marketing and site development initiatives on the Microsoft business. VML's Microsoft work grew to include serving as lead development partner for *microsoft.com* and creating online experiences with both MSN and Mobile Embedded Devices (MED) business groups.

In addition, VML added notable digital client partnerships with AC Nielsen, Blue Cross Blue Shield, and shared work via its Wunderman partnership for Motorola and Lincoln-Mercury.

VML enjoyed continued growth among several long-time clients, including interactive agency of record relationships with AMC Theatres, Colgate-Palmolive, Bayer CropScience, and Burger King.

In terms of WPP partnerships and integration, VML enjoyed significant progress in 2004, primarily with Young & Rubicam Brands companies, and also in alliance with Wunderman, Mediaedge:cia and The Digital Edge.

Finally, and noteworthy, VML ranked number 10 on the list of the 'Top 25 Best Companies to Work for in America,' among companies under 250 employees by the Society for Human Resource Management (SHRM), and selected and ranked by the Great Place to Work Institute (GPTW), the same organization that selects the Fortune 100 list.

Our promotion company, **Einson Freeman**, continued its strong growth trend, driven by major new assignments from LG Electronics and Pfizer, as well as continued relationships with Alcoa, IBM and Lipton among others. Solid collaboration with WPP companies such as JWT and Y&R has been the foundation of Einson's new business efforts. In 2004, the agency again earned critical acclaim for its work with AT&T Wireless, winning a Gold Reggie for Best National Consumer Promotion as well as being awarded the prestigious EMMA Award for Best Overall Entertainment Promotion.

EWA continued to develop its data and relationship management services and recorded another strong performance in 2004. Growth was boosted by new contracts with the Department of Health Welfare Food Unit and developing existing clients.

Mando Brand Assurance extended its global business with wins from Coca-Cola Austria, Coca-Cola Australia and pan-EU adoption from Danone. UK successes included one of the largest British consumer promotions from Walkers crisps and the development of a significant partnership with Avon cosmetics.

Headcount Field Marketing maintained its growth in 2004 adding new business from Centura Foods, HSBC and the Post Office while continuing to grow existing clients such as One.Tel, BAA, COI, Masterfoods, Petplan and Tropicana. The COI's Department of Works & Pensions asked Headcount to handle its high profile Direct Payment roadshow, designed to drive awareness and educate the public on the new method of payment for benefits and pensions across the UK.

Additional work from Aston Martin and Peugeot, as well as from existing clients Jaguar and Land Rover, helped reinforce the automotive side of **Warwicks'** business. Elsewhere new client growth, and higher levels of activity from existing clients such as Massey Ferguson, helped the company expand into new industry sectors.

Specialist Communications

Custom media

Forward maintained steady growth in 2004, adding projects for Group clients B&Q and Vodafone, and launching a new title, *Talk Money* for Barclays.

Spafax had a good year, adding Singapore Airlines and Qatar Airways to its roster of inflight TV and movie entertainment clients. Technological developments led to Spafax programming video on-demand systems for many airlines including the 500 channel on-demand system launched by Emirates. Spafax was awarded Best Design in a New Magazine at the New York Folio Show Ozzie awards for the first inflight magazine for LAN Chile Airlines.

Sector marketing

Pace continued its strong performance in 2004. At the recent National Association of Homebuilders convention, the firm won national awards including Best Brochure in the Country and Best Brochure for an Active Adult Community in the Country in its categories.

Geppetto launched a new campaign for Little Tikes and developed the brand idea and creative for Reebok's first shoe for tween girls, *Sweets*. Geppetto also created a strategic plan and advertising for NFL's youth effort; and authored the significant *Kids Food & Health Study*.

The Food Group continued its foodservice sector development by adding new clients Electrolux and Equal. In 2004 the firm further refined the key consultancy disciplines of culinary and strategic development into a consolidated team effort for the benefit of all clients.

Edinburgh-based architects and interior designers **BDG McColl** traded steadily during 2004, winning a number of office development, shopping centre refurbishment, and university projects. As well as advising UK clients, the company also worked internationally on the fit-out of Numico's new headquarters at the World Trade Centre in Schiphol, Amsterdam.

BDGworkfutures continued to consolidate its reputation as a leading strategic workplace design consultancy, with its work for PricewaterhouseCoopers winning several industry awards. The company continued to develop its relationship with existing clients such as BT and IBM, as well as winning significant new clients including Cable & Wireless, BMRB and Aon.

Sports marketing

PRISM had a highly successful year. The Sports Marketing team secured NTT DoCoMo's i-mode global sponsorship assignment. The Public Relations team continued to expand their global relationship with Shell while also adding new clients such as DuPont and Olympus. In North America, PRISM conducted a 45-city media blitz for Ford's new Escape Hybrid vehicle. The Brand Experience team rolled out its second major brand sponsorship platform, adding Standard Chartered's 'Greatest Race on Earth' to the Land Rover G4 Challenge. And the Sponsorship Consulting team used its unique sponsorship analytical tool to provide companies such as Vodafone, Xerox, and Deutsche Bahn with precise measurements on their sponsorship investments.

Premiere Sponsorship Marketing (PSM) developed a breakthrough campaign for the UK Department of Education to 'Beat Bullying'. A blue wristband was 'seeded' with sports and entertainment stars such as Rio Ferdinand, the England Cricket Team, Scissor Sisters and Sharon Osbourne. The impact was such that 900,000 youngsters registered for a band and the accompanying information pack.

Global Sportnet continued to grow its core football club and national association TV rights business. They successfully launched the Performance joint venture with MindShare to create a dedicated sports and entertainment sponsorship consultancy, and clients to date include Ford, HSBC, and Nestlé.

Mary Ellen Howe
Chief operating officer
Specialist Communications, North America

Media, technology and production services

MJM continued to grow its reputation during the year as experts in face-to-face marketing, with clients Pfizer, AstraZeneca, IBM, and Canon. The company's London office is growing, with new clients and collaborations with sister agencies. New offices were added in Washington DC and Detroit, as well as an interactive group that is helping to bring a fresh dimension to clients' work. Notable consumer events have ranged from a Festival for the Saudi Consulate (London) to a Super Moto Championship for Red Bull (Las Vegas). The company has also helped to deliver face-to-face marketing support to a number of WPP's major presentations, such as those for Samsung and HSBC.

Metro enjoyed another successful year in 2004 and continued to work on ground-breaking projects. Metro Ecosse staged the celebrations for the 250th Anniversary of the Royal & Ancient Golf Club of St. Andrews, which involved transforming a temporary structure into the ballroom of a period liner to entertain 1200 guests. Metro Broadcast continued to deliver innovative services, including transmitting a live, commercial, 4:2:2 MPEG-encoded High Definition transmission in Dolby 5.1 surround sound from Alexandra Palace, the birthplace of television transmission.

The Farm Group, including Uncle, had another successful year, highlighted by being voted the Best Post Production Company in the *Broadcast* magazine awards (for the fourth time in five years) and finishing number one amongst broadcast post production companies in a poll conducted by this industry-leading publication. Numerous high profile TV projects were handled by the Farm Group throughout the year, including *X Factor, Ramsay's Kitchen Nightmares, Watchdog* and *Crimewatch*. ■

Mary Ellen Howe and Andrew Scott

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The Advertising and Marketing Services Industry:

Complete recovery from the internet bust of 2000 and strong base for growth

WPP CEO Martin Sorrell reports

2004 marked the full recovery from the internet bust of 2000. It was WPP's best year ever measured by most metrics – with the exception of margins and then only by a small amount. 2005 has already shown more improvement. It should, in theory, be the weakest of the next four-year cycle to 2008.

2006 should be an even better year – a "mini-quadrennial" boosted by mid-term Congressional elections in the US, the Winter Olympics in Turin and soccer's World Cup in Germany.

And 2007 will be the platform for 2008, when a "maxi-quadrennial" year will be dominated by the US presidential elections (Hillary Clinton vs. Condoleezza Rice?), the blockbuster Beijing Olympics and the European Football Championships in Austria and Switzerland.

In the longer term, advancing Americanisation and the growth of Asia Pacific, overcapacity and the shortage of human capital, the web, the demand for internal alignment and as a result internal communications, and retail concentration should together underline and assure the importance of our industry and its constituent parts – advertising and marketing services.

Worldwide communications services expenditure 2004 $bn

	Advertising	Market research	Public relations & public affairs	Specialist communications	**Total**
US	161.5	8.0	2.7	446.0	**618.2**
UK	18.4	2.0	0.9	65.2	**86.5**
France	13.2	1.4	0.1	24.3	**39.0**
Germany	21.7	1.7	0.2	36.8	**60.4**
Japan	40.6	1.3	0.1	47.6	**89.6**
Rest of the world	114.3	5.0	0.1	151.7	**271.1**
Total	369.7	19.4	4.1	771.6	**1,164.8**

Sources: Veronis Suhler Stevenson, ZenithOptimedia, ESOMAR, WPP estimates

What we think

The advertising and marketing services industry

Projected GDP: BRIC vs G6 $bn

	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Brazil	762	468	668	952	1,333	1,695	2,189	2,871	3,740	4,794	6,074
China	1,078	1,724	2,998	4,754	7,070	10,213	14,312	19,605	26,438	34,799	44,453
India	489	604	929	1,411	2,104	3,174	4,935	7,854	12,367	18,847	27,803
Russia	391	534	847	1,232	1,741	2,264	2,980	3,734	4,467	5,156	5,870
France	1,311	1,489	1,622	1,767	1,930	2,096	2,267	2,445	2,668	2,898	3,148
Germany	1,875	2,011	2,212	2,386	2,524	2,604	2,687	2,903	3,147	3,381	3,603
Italy	1,078	1,236	1,337	1,447	1,553	1,625	1,671	1,708	1,788	1,912	2,061
Japan	4,176	4,427	4,601	4,858	5,221	5,567	5,810	5,882	6,039	6,297	6,573
UK	1,437	1,688	1,876	2,089	2,285	2,456	2,648	2,901	3,201	3,496	3,782
USA	9,825	11,697	13,271	14,786	16,415	18,340	20,833	23,828	27,229	30,956	35,165
BRIC	2,720	3,330	5,442	8,349	12,248	17,346	24,416	34,064	47,012	63,596	84,200
G6	19,702	22,548	24,919	27,333	29,928	32,688	35,916	39,667	44,072	48,940	54,332

Source: Goldman Sachs

US advertising spending 1998-2008 $m

Year	Television	Radio	Newspapers	Consumer magazines	Business-to-business magazines	Consumer internet	Yellow pages	Outdoor	**Total**
1998	46,437	15,430	49,325	10,518	11,647	1,920	12,119	4,413	**151,809**
1999	49,375	17,681	52,189	11,433	12,682	4,620	12,952	4,832	**165,764**
2000	55,482	19,817	54,971	12,370	13,507	8,229	13,961	5,235	**183,572**
2001	49,993	18,363	50,724	11,095	10,848	7,223	14,693	5,193	**168,132**
2002	53,770	19,405	50,776	10,995	9,042	6,048	14,854	5,232	**170,122**
2003	56,063	19,592	51,894	11,193	9,036	7,267	14,933	5,504	**175,482**
2004[1]	**61,641**	**20,902**	**54,846**	**11,674**	**9,199**	**8,415**	**15,629**	**5,756**	**188,062**
2005[1]	**64,398**	**22,170**	**57,530**	**12,351**	**9,585**	**9,267**	**16,545**	**6,005**	**197,851**
2006[1]	69,457	23,642	60,317	13,154	10,085	10,452	17,564	6,274	**210,945**
2007[1]	72,984	25,096	63,497	14,075	10,706	11,378	18,626	6,568	**222,930**
2008[1]	79,852	26,788	67,124	15,131	11,403	13,264	19,698	6,871	**240,131**

[1] Estimated

Source: Veronis Suhler Stevenson

US growth in advertising spending 1999-2008 % growth

Year	Television	Radio	Newspapers	Consumer magazines	Business-to-business magazines	Consumer internet	Yellow pages	Outdoor	**Total**
1999	6.3	14.6	5.8	8.7	8.9	140.6	6.9	9.5	**9.2**
2000	12.4	12.1	5.3	8.2	6.5	78.1	7.8	8.3	**10.7**
2001	-9.9	-7.3	-7.7	-10.3	-19.7	-12.2	5.2	-0.8	**-8.4**
2002	7.6	5.7	0.1	-0.9	-16.6	-16.3	1.1	0.8	**1.2**
2003	4.3	1.0	2.2	1.8	-0.1	20.2	0.5	5.2	**3.2**
2004[1]	**9.9**	**6.7**	**5.7**	**4.3**	**1.8**	**15.8**	**4.7**	**4.6**	**7.2**
2005[1]	**4.5**	**6.1**	**4.9**	**5.8**	**4.2**	**10.1**	**5.9**	**4.3**	**5.2**
2006[1]	7.9	6.6	4.8	6.5	5.2	12.8	6.2	4.5	**6.6**
2007[1]	5.1	6.2	5.3	7.0	6.2	8.9	6.0	4.7	**5.7**
2008[1]	9.4	6.7	5.7	7.5	6.5	16.6	5.8	4.6	**7.7**
Compound annual growth									
1998-2003	3.8	4.9	1.0	1.3	-4.9	30.5	4.3	4.5	**3.0**
2003-2008	7.3	6.5	5.3	6.2	4.8	12.8	5.7	4.5	**6.5**

[1] Estimated

Source: Veronis Suhler Stevenson

Improving prospects, even in the shorter term

In 2004, spending on worldwide communication services – or advertising and marketing services – grew by 2-3% to more than $1.1 trillion, putting WPP's market share, including Grey Global, at about 10%. This year the industry should again grow at around 2-3%. As a proportion of worldwide GNP, it probably fell during the recession of 2001-03, but stabilised in 2003 and 2004. It will continue to grow thereafter.

Advertising and media investment management – which concentrate on traditional media such as television, radio, newspapers, magazines, outdoor and cinema – have grown well historically and led the industry out of the recession. But its share has declined as supposedly less sophisticated, less global and less developed marketing services have gained share. These are the so-called below-the-line areas, such as information, insight and consultancy, public relations and public affairs, branding and identity, healthcare and specialist communications – particularly direct, interactive and internet communications.

Consumer price inflation year-on-year % change

	00 v 99	01 v 00	02 v 01	03 v 02	04 v 03
France	1.7	1.7	1.8	2.1	2.3
Germany	1.4	2.0	1.4	1.1	1.7
Italy	2.5	2.8	2.4	2.6	2.3
Japan	-0.7	-0.7	-0.9	-0.3	-0.1
UK	2.9	1.8	1.6	2.9	1.4
USA	3.4	2.8	1.6	2.2	2.6
Brazil	7.1	6.8	8.5	14.7	7.3
Russia	20.7	21.5	15.7	13.7	10.9
India	4.0	3.7	4.4	3.9	3.5
China	0.3	0.5	-0.8	1.2	4.0

Source: ZenithOptimedia

The rise and rise of marketing services

Marketing services have grown more quickly, for two reasons. First, network television pricing has risen faster than inflation, to the disquiet of big advertisers. Procter & Gamble, the world's biggest advertiser (even bigger with Gillette), Unilever, Coca-Cola and American Express have registered voluble protests in recent times. They are sick and tired of paying more for less. In 2003, in the up-front network buying season, cost per thousand rose by an estimated 15-22% against an expected 7-12% – and this against general price inflation of 3%. In 2004, up-front pricing continued to outpace inflation, cost per thousand rising by 6-7%. 2005 should see further softening, but prices will still probably grow faster than general price inflation at around 4-5%.

The analogy is to imagine what would happen in the car industry if the price of steel rose consistently by 10% against general price inflation of 3%. Manufacturers would use less steel or find a substitute. That is what is happening in our industry, too. Marketing services and other traditional media such as radio, outdoor and cinema advertising are becoming more acceptable substitutes. Network television will, however, remain an important medium. It will not disappear. It still reaches the largest number of consumers in the shortest time, at the lowest cost per thousand. If we were starting a multi-national package goods company from scratch, we would still use network television to reach the largest number of people in the shortest time at the lowest cost.

Clients also need reach. In the US, for example, prime-time network television used to reach 90% of households. A few years ago it was 50%; today it is perhaps only 33%. There are, of course, still programmes with significantly increased reach, like the Super Bowl or Academy Awards. But they remain in relatively fixed supply and their prices are bid up as a result. That is why a 30-second Super Bowl ad costs $2.4 million and an Academy Awards slot $1.5 million. This is not a situation that can last, particularly when significant segments of the population seem to go missing. For instance, US audience ratings indicate that young men have disappeared on Monday nights – perhaps gaming on the internet or watching out-of-home in bars – and housewives have defected from soap operas.

The Super Bowl line-up 1985-2005

Year	Price $	Network	Household rating	Share
1985	500,000	ABC	46.4	63
1986	550,000	NBC	48.3	70
1987	575,000	CBS	45.8	66
1988	600,000	ABC	41.9	62
1989	675,000	NBC	43.5	68
1990	700,000	CBS	39.0	63
1991	800,000	ABC	41.9	63
1992	800,000	CBS	40.3	61
1993	850,000	NBC	45.1	66
1994	900,000	NBC	45.5	66
1995	1,000,000	ABC	41.3	62
1996	1,100,000	NBC	46.0	68
1997	1,200,000	FOX	43.3	65
1998	1,300,000	NBC	44.5	67
1999	1,600,000	FOX	40.2	61
2000	2,300,000	ABC	43.3	63
2001	2,000,000	CBS	40.4	61
2002	1,800,000	FOX	40.4	61
2003	2,100,000	ABC	40.7	61
2004	2,200,000	CBS	41.3	63
2005	2,400,000	FOX	41.1	62

Source: MindShare

Moreover, media fragmentation has increased significantly as the old media become more sophisticated and the new media proliferate. Technology has improved the effectiveness and development of cable and satellite television, newspapers and periodicals, radio and outdoor, while spawning new media in direct, interactive and the internet. Many of these new media are more measurable and more targeted.

At the same time, media consumption habits are changing with every generation. Just look at what a four-year-old can do with a computer in a few hours or what bloggers and hackers do with different value systems. Decision-makers in media owners and agencies tend to be in their fifties and sixties; their sons and daughters and grandchildren are shifting in ever greater numbers to multi-tasking on the web, personal video recorders (PVRs), video-on-demand, mobiles and internet gaming.

Many leading executives are in denial. They believe – or hope – that such changes will not happen on their watch. Yet I know that my own consumption habits have altered radically over the past few years – more daily newspapers,

What we think

The advertising and marketing services industry

fewer periodicals. More cable and satellite television, less network. More web use for information and Blackberry® e-mail. I am less willing to wait for detailed analysis in weeklies or fortnightlies. I want commentary now. Why should I wait for 10 days or so for in-depth analysis of the Procter/Gillette merger announced on a Thursday night?

Similarly, the US has hitherto accounted for about half of worldwide advertising and marketing services spending, with the most prominent non-US markets being Japan, Germany, the UK, France, Italy and Spain. That is changing. Asia Pacific, Latin America, Africa, the Middle East, and Central and Eastern Europe are becoming more and more significant, as multinational corporations build their businesses where populations are growing.

Non-US markets will be increasingly important. Extrapolate WPP's current revenues in the BRIC countries (Brazil, Russia, India and China) at the rates of GNP growth predicted in recently published Goldman Sachs research documents and assume moderate rises in advertising to GNP ratios. The result is that Asia Pacific, Latin America, Africa, the Middle East, and Central and Eastern Europe will take a growing share of our business: possibly 38% by 2015, excluding acquisitions. Perhaps we should look at our activities on a network television and non-network television basis, and a US and non-US basis. Increasingly, the marketing world is becoming two-paced, geographically and functionally. The US, Asia Pacific, Africa and Middle East and Central and Eastern Europe are outpacing Western Europe; the internet is outpacing network television, newspapers and periodicals.

In any event, WPP was founded some 20 years ago by two people in one room to try to capitalise on these two trends and provide co-ordinated advertising and marketing services throughout the world.

In the short term it's been tough

We were spoiled in the 1990s. All you had to do was come into the office. With a tightly controlled Rubin/Greenspan US economy and Friedmanite economics driving the global economy it was relatively easy – despite the world's second largest economic engine, Japan, being out of order for 12 years or so. Strong growth, low inflation and high, but not full levels of employment, drove a 10-year bull market, such as we have not seen since the 1920s.

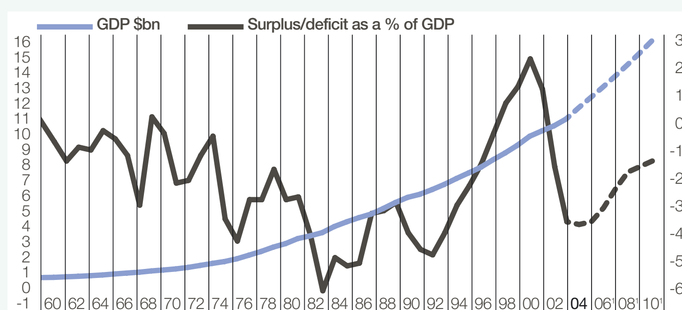
The speculative blow-out around the internet was perhaps inevitable and, given its size, a lengthy correction was necessary. Overall, the past four years have been painful. After growing consistently through the 1990s, culminating in organic growth of 15% in 2000 (20% using the yardstick of our competitors), WPP shrank, on a like-for-like basis, in 2001 and 2002. It resumed modest growth in 2003 and 2004. Ten fat years, three lean ones and a return to modest growth in a lower inflationary environment in the last one – mostly due to quadrennial events. It seems our business is becoming increasingly event-driven, particularly by political events. President Bush wanted a strong economic background to his re-election and Prime Minister Blair wanted a similar background to his.

One worry: fiscal over-stimulation

The US economy was in a political cycle in 2004, as the government used fiscal spending to stimulate the economy. Rates of growth in US government spending were back to where they were 35 years ago at the height of the Vietnam War. It is no accident that governments in many countries are the largest advertising spenders: ministries use marketing spending to reinforce their policies and build electoral popularity. The problem is that the US economy is almost entering another Reagan era with huge fiscal deficits, a weak dollar, trade imbalances and the threat of inflation. Isn't the country's currency really its stock price?

President Bush may have to deal with the deficit and the weak dollar by raising interest rates and taxes and thus curbing growth. To date, the recession has hit the business-to-business arena, leaving the consumer relatively untouched. Spending has been stimulated by negative real interest rates and discounting. The issue remains whether increased corporate profitability and liquidity will stimulate a capital expenditure-led increase in activity, as the consumer is hit by monetary correction. 2005 has so far seen a relatively soft landing, but corporate capital spending remains sluggish, not filling the void caused by more sensitive debt-ridden consumers and reduced consumer spending. Perhaps a Sarbanes-Oxley, Eliot Spitzer-dominated world, where CEOs last on average less than four years and are constantly pressurised to return cash to share owners and hedge funds, themselves pre-occupied by short-term performance targets, is not an environment where anybody wants to take risks or focus on the long-term. Why take chances and be fired?

US Government spending since 1960



[1] Estimate

Source: Budget of the US Government 2005

Top 10 US advertising spenders by category $000

Industry	Jan – Aug 2003	Jan – Aug 2004	% change
Auto companies, dealers & services	11,935,395	12,838,818	8
Retail	6,985,815	7,554,044	8
Movies & entertainment	5,016,147	5,624,622	12
Medicines & proprietary remedies	3,819,514	4,617,868	21
Financial	3,704,938	4,528,364	22
Local services & amusements	3,443,932	3,763,962	9
Telecommunications	3,304,047	3,518,843	7
Public transportation, hotels & resorts	2,842,910	3,251,263	14
Restaurants	2,602,180	2,776,999	7
Insurance & real estate	2,023,804	2,710,592	34
Other	29,543,717	32,078,479	9
Total	**75,222,399**	**83,263,854**	**11**

Industry	Year	Value
Auto companies, dealers & services	04	**12,838,818**
	03	11,935,395
Retail	04	**7,554,044**
	03	6,985,815
Movies & entertainment	04	**5,624,622**
	03	5,016,147
Medicines & proprietary remedies	04	**4,617,868**
	03	3,819,514
Financial	04	**4,528,364**
	03	3,704,938
Local services & amusements	04	**3,763,962**
	03	3,443,932
Telecommunications	04	**3,518,843**
	03	3,304,047
Public transportation, hotels & resorts	04	**3,251,263**
	03	2,842,910
Restaurants	04	**2,776,999**
	03	2,602,180
Insurance & real estate	04	**2,710,592**
	03	2,023,804

Source: CMR (excludes out of home advertising)

Merger & acquisition activity*

Year	Volume	Value
US deal flow		
2005	3,159	$418,508.6
2004	3,783	$361,896.6
2003	3,033	$134,955.2
European deal flow		
2005	3,780	$251,588.8
2004	4,172	$258,392.7
2003	3,380	$249,401.6

*Comparative YTD numbers for period of 1 Jan – 6 May
Source: Mergerstat.com (6 May 2005)

Meanwhile, consolidation continues...

In parallel with this short-term weakness, other pressures persist. Consolidation continues apace. Among clients, Procter takes Wella and Gillette, Interbrew takes AmBev, Telefonica takes Bell South's Latin American interests, Cingular takes AT&T Wireless, MCI chooses Verizon, Pernod Ricard tries to take Allied Domecq. And this at a time when merger and acquisition (M&A) activity is meant to be at lower levels.

Consolidation among media owners also continues unabated. NewsCorp takes DirecTV, Comcast tried to take Disney, Carlton and Granada merge to monopolise ITV. Legislation favours more consolidation in the US and the UK. Even in Brazil, which has been fiercely protectionist, you could now buy 30% of Globo or Editora Abril. Germany allows foreign ownership of TV channels. Italy concentrates further though the Gasparri Bill.

Clients and media owners are not alone. Retail consolidates, too. Morrison takes Safeway. In Latin America, Wal-Mart enters the North East of Brazil by acquiring part of Ahold's interests, Lider consumes Carrefour, Jumbo buys Disco in Argentina, and rumours surround Wal-Mart and Carrefour, and Home Depot and Kingfisher. In line with the laws of big numbers, the challenge to Wal-Mart, Tesco and Home Depot will be how they can successfully manage expansion outside their home markets. It will not be easy; the demands are different.

As a result, it is no surprise that agencies are also consolidating. Certainly in the one area where there are big economies of scale – media buying – consolidation is significant. To negotiate with a Murdoch or Sumner Redstone or Mel Karmazin or Michael Eisner or Bob Iger or Bob Wright, larger scale is essential. Media planning or buying, or what we call media investment management, is one of WPP's fastest-growing businesses, driven by clients looking for media buying efficiencies – rather than reductions in agency's commissions. Often savings on gross media budgets of 5-10% are achievable. Media savings are driving client centralisations and are a quick kill in showing efficiencies, as Nestlé and Unilever have shown. But even on the creative side, voracious procurement departments and ill-judged price competition by agencies themselves are driving consolidation (the $100 million pitch win headline in *AdAge* or *Campaign* is more satisfying than real revenue). No surprise, then, that Publicis dismantled D'Arcy, itself a consolidation of three agencies – D'Arcy, Masius Wynne-Williams and Benton & Bowles. We ourselves consolidated Cordiant, an amalgamation of Bates and Dorland, among others.

...And so do price and trade promotion

In a low-inflation, over-capacity market with little or no pricing power, many manufacturers have turned to price promotion and discounting. Probably the best example is the car and truck industry. General Motors still seems to believe it has a balance sheet advantage over its competitors, particularly in Detroit. Why else would it introduce heavily price-based competition such as five-year zero-coupon financing or discounts of $4,000 to $5,000 a unit. Probably, the most extreme case was Hyundai in Korea offering negative interest rates on financing – a form of cash giveback. One dealer in America offered a buy-one, get-one-free deal on sports utility vehicles (SUVs). Luckily it was a failure.

If you give cars away it is only to be expected that consumers buy them. No surprise, then, that the American auto market has remained at 16 million units in this environment, or that housing markets and house prices show similar buoyancy, when fixed-term money is being given away at such low interest rates.

The problem is that consumers become used to such discounting and wait for new car or truck introductions and the discounting that goes with them. The auto manufacturers face profitless prosperity and break-even economics at full capacity. Interestingly, the Japanese and Korean manufacturers, and some German ones too, have tended to resist the temptation of excessive discounting, offering lower levels of $1,000 or $2,000. Instead they concentrate on design, new products and branding to build a price premium. If you focus on price, you build commodities. If you focus on innovation and product and differentiation, you earn a price premium and build brands. Conclusive evidence of the inadvisability of this strategy came when General Motors had to lower its earnings forecast for 2005 by 80%. Price promotion just does not work. The product is key.

A similarly unfortunate trend is occurring in the food industry. Package goods companies continue to try to build share by discounting and price competition, particularly as distribution concentrates. They pay higher trade discounts and slotting allowances, and fund increased promotional activity. One package goods company has $80 billion of annual sales, $10 billion of operating profits and spends about $2 billion on above-the-line advertising. Guess what its broadly-defined trade promotions budget is? Around $10 billion, equivalent to its operating profits and rising by 1% of revenues or $800 million a year. The CEO described it as the biggest crisis facing the company.

Interestingly, there is not the same phenomenon in the health-based or well-being segments of the package goods industry. Here, companies are more focused on product innovation, research and development or science, along with branding to build stronger market shares. As a result, brands and margins are more robust, and volumes greater.

Recent accounting changes in the US have forced companies to show gross and net sales, at least temporarily. As a result, more data is available on the balance between advertising and promotional spending. Many CEOs know what they spend on advertising, but not on trade promotion. Often the latter exceeds the former, even in heavy-spending above-the-line companies. It may well be that manufacturers will seek to cut trade spending and boost brand spending, particularly at a time when the trade is consolidating at such a rapid rate. Bribing customers for distribution is a recipe for ruin.

Fees, procurement and outsourcing bring opportunities as well as threats

The days of 15% gross commissions, 17.65% on cost, are long gone. Commission levels have receded to around 12% gross for full service, including media planning and buying. Production commissions have largely been reduced or eliminated, although there are interesting procurement opportunities for agencies themselves in television production, as we have seen at WPP in Australia.

While commissions persist, fees are becoming more popular with clients, although that momentum seems to have slowed recently. They now represent at least 75% of our business. Usually time-based, with incentives, they are used exclusively in our marketing services business, which accounts for 54% of our revenues. In advertising, they account for over half of our business.

Fees have a number of advantages and on balance we prefer them. They are not seasonal, in a business where spending tends to be concentrated in the second and fourth quarters. January has become a profitable month. If clients cut or do not spend or continually re-brief us, we still get paid. Finally, when fee-driven, we tend to plan our annual business better.

Fees have also tended to dampen volatility in our operating margins. In the most recent cycle our margins peaked at 14.5% and bottomed at 12.3%. In the previous cycle in the early nineties, they peaked at 10.5% and bottomed at 5.6%.

I cannot remember a time, in the 25 or so years I have been in the industry, when clients have been so focused on cost, although in 2004 there were signs of a growing focus on top-line growth, and innovation and branding – as opposed to costs. Given overcapacity, low inflation and lack of pricing power, and high management turnover, that is perhaps understandable.

However, the question remains whether the procurement process can successfully purchase creative services in the way that door handles or widgets are bought. The emphasis on procurement seemed to start in the pharmaceutical industry and then moved elsewhere. It may work in media buying, where there are economies of scale, but not necessarily in media planning or other creative areas.

It is true that we must improve our processes and eliminate waste, but can you buy ideas or our people's creativity in such a mechanical way? Increasingly, pressure on price will drive our best creative resources to those clients and categories where they feel their services are appreciated and rewarded appropriately. Many marketing

Hours per person per year using consumer media in US

	1998	1999	2000	2001	2002	2003	2004	2005†	2006†	2007†	2008†
Total broadcast television	881	867	866	833	787	769	782	785	790	794	800
Total cable & satellite TV	670	720	769	843	918	975	1,010	1,042	1,068	1,093	1,131
Broadcast & satellite radio	911	939	943	955	990	1,002	1,035	1,040	1,070	1,080	1,120
Cinema	13	13	12	13	14	13	13	13	13	13	14
Home video/DVD	51	48	51	56	65	70	78	85	94	103	110
Interactive TV	–	2	2	2	2	2	3	3	4	4	5
Recorded music	275	281	258	229	200	184	180	176	174	170	167
Video games	45	53	59	60	64	69	71	75	81	86	98
Consumer internet	39	64	107	139	158	176	189	200	213	225	236
Daily newspapers	186	183	180	177	175	171	169	168	165	165	164
Consumer books	118	119	109	106	109	108	107	106	106	105	104
Consumer magazines	134	134	135	127	125	121	118	116	113	111	110
Total	**3,323**	**3,423**	**3,491**	**3,540**	**3,607**	**3,660**	**3,755**	**3,809**	**3,891**	**3,949**	**4,059**

Source: Veronis Suhler Stevenson

† Estimated

clients still appreciate that great advertising ideas and copy deliver outstanding results. Reducing marketing costs indiscriminately, particularly in industries with heavy fixed production costs, will only result in having to spread those costs over fewer unit sales.

The procurement process seems to be based on the idea that what we provide is low value-added, and that because we are dependent on significant revenues from large clients, we can be squeezed. This thinking may well be flawed. First, what we do is critical. There is a limit to how far costs can be reduced; but there is almost no limit (apart from 100% market share) to how far you can grow revenues. Second, in an increasingly undifferentiated world, what we do – differentiate products and services, tangibly and intangibly – is becoming more and more important.

Finally, growing consolidation in our industry is reducing the potential resources for clients. It is ever more difficult to find co-ordinated resources that can deliver what they require, particularly if the client is an international, multinational or global company. Smaller, country or city-based operations cannot offer the depth of coverage.

One interesting recent development is the growing interest in outsourcing parts or all of the marketing function. Clearly this is an opportunity for us and is being driven by CEOs' focus on costs and their analysis of their investment in marketing services. Instead of concentrating solely on amounts spent outside the organisation, closer examination is being made of amounts spent inside the company. WPP has become involved recently in outsourcing projects in the car and internet services industries.

In a number of other areas, including advertising, direct marketing and research, there is interest in what can be done in outsourcing costs. Clearly this tends to make internal marketing departments more defensive about their functions.

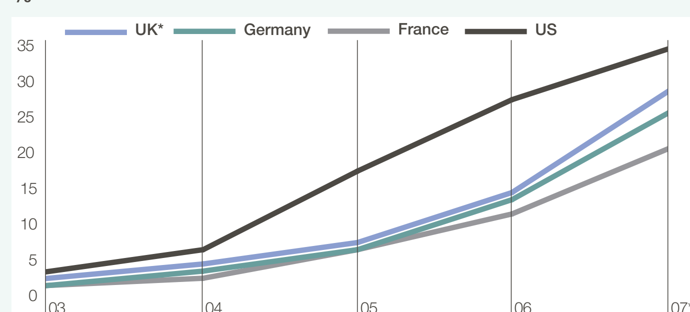
Media fragmentation

Another significant short-term pressure is media fragmentation. This has been driven by television price inflation and falling audiences, as media consumption habits change. Developing technologies have given birth to new media such as personal computers, the internet and interactivity. They have also altered the economics of traditional media such as newspapers and magazines, while minority media such as radio, outdoor and cinema have improved their offerings through better marketing and research. Few newspaper or periodical publishers have mastered the connection with the new internet platforms; hence Rupert Murdoch's recent conference speech with his editors, as well as his decision to re-examine NewsCorp's new media approach with McKinsey engaged to look at it.

As a result, clients are re-examining the absolute levels of their advertising and marketing services investment. Does it make sense to shift their portfolio of media investment away from network television to cable, satellite, radio, outdoor, cinema, direct, public relations, interactive, internet or whatever? The econometric analysis of media investment is becoming increasingly important. How much should we spend and through which media, have become the critical questions – the Holy Grail of advertising. The answer to which half of advertising is wasted.

Among the latest media innovations are PVRs, which enable viewers to download television programmes on to a hard disk. The PVR enables you to build your own television channel, recording programmes for screening when you want to see them, and to build a library, as an Apple iPod does with music. A PVR also allows you to time-shift programmes as you watch, stopping for breaks whenever you wish. Forrester Research predicts that 50% of US households will have PVRs by 2007. Others are less bullish, but even the least enthusiastic forecast 25% penetration by then. It cannot be long before they are standard equipment in television sets.

Projected PVR penetration in parts of Europe and US
%



Source: Jupiter Research

*MindShare estimates only 32% penetration by 2010

What has made observers particularly excited about the PVR is its ability to fast-forward or skip commercials altogether. Market research in the US indicates that consumers like to fast-forward advertisements – though

they stop at beer commercials for fun and car commercials for information. We could do most of this previously with television video recorders, of course, and the key question remains the amount of time viewers will continue to devote to television viewing. In some PVRs, the skip button has been omitted and fast-forward speeds are limited. In others, little boxes on the PVR screen will contain details of the ads being fast-forwarded. Whatever the outcome, such devices will exert more pressure on network television and on agencies to develop stronger programming and sponsorship opportunities, along with even more creative advertising ideas. The same will be true of video-on-demand, another new and fast-developing technology. The premium on creativity will grow.

Super-agencies – trend or fad?

Formed initially in response to the pressures of consolidation and to house conflicting accounts, the super-agencies – or what we at WPP prefer to call the parent companies – really represent the full-service agencies of the 21st century.

In the 1960s if you visited, for example, JWT in Berkeley Square you would find a creative department, a marketing department, an account handling department, a media department, a public relations department, a merchandising department, a direct mail department, a packaging department, a production department, an experimental film department, a market research department, a conference department and even a home economics department with two fully equipped kitchens – plus an operations research department designing a factory for Mr Kipling's cakes. Long before the phrase integrated communications came into common use, integrated communications were exactly what such full-service agencies provided.

Over time, and as a result of two pressures, these departments became unbundled. Clients sought to reduce costs – and the media and craft specialists within agencies, feeling under-recognised as members of a mother agency's department, looked for greater recognition and reward in free-standing, specialist companies of their own.

Importantly, this involved a split between the brand agency and the media agency, reducing costs from approximately 15% of gross media costs to about 12%. Good media people left and started independents such as Carat, Media Planning Group, CIA and Western International, which grew organically and by acquisition. The same pattern was seen among packaging, merchandising, PR and other specialist skills. Many such companies have now been re-absorbed into the super-agencies, but in an inter-dependent or autonomous form. Strong media or marketing services functional specialists do not like, understandably, to be subsumed under advertising professionals.

Today, the new super-agencies have a big opportunity. Clients still require, first and foremost, creativity and great creative ideas. Secondly, but increasingly, they want better co-ordination (although it is no good co-ordinating a lousy idea). Finally, they want it at the lowest possible price. The challenge is therefore to provide the best ideas in the best co-ordinated or integrated way at the lowest price. To respond to this, the super-agencies will in turn need to focus on attracting, retaining and developing the best talent, structuring their organisations in the most effective way and incentivising their people successfully – qualitatively and quantitatively.

While only a year ago this might have been seen as a fad, the concept may now be taking root. Three major multinational clients – all three coincidentally, perhaps, with their origins or significant parts of their business in Asia – invited the four or five largest holding or parent companies to present for their global advertising and marketing services business. In all cases the presentations included advertising and media investment management, and direct – and in one case research. All three clients were looking for an integrated global solution to their needs and for groups that can offer alternative solutions – potentially a weakness of the single network.

In all three pitches, a group or parent company solution was selected. WPP tribes were successful in two of them. In the third, we were unable to field our strongest line-up because of conflict issues in one of the tribes. The CEO of one eliminated parent company in the first round of the first pitch declared that this was not a trend. Now that at least three pitches have taken place, he has changed his mind. In addition, many other group pitches have taken place – particularly in pharmaceuticals – that have been under the trade papers' radar. The only issue preventing this from being a trend is whether clients can be convinced of the benefits. The middle of the road is becoming an increasingly difficult place to be, with traffic coming from both directions. Those agencies excluded from the super-agency pitches because they lack the scale and resources must be feeling uncomfortable. Our business is increasingly polarising between the very big at one end and the small at the other.

Further down the line, a much brighter picture

Five key factors underpinning longer-term growth

Strategically, a better future

While the internet bust of 2000 has clouded the short-term outlook, the long-term future for advertising and marketing services, for innovation and branding, remains very rosy. There are five key reasons why the services we provide will become increasingly relevant.

1. Globalisation or Americanisation

Certainly, commercial life has not quite worked out as Professor Theodore Levitt predicted it might some 21 years ago in the *Harvard Business Review*. The world has not been globalised to the extent he predicted, where consumers around the world consumed similar products, marketed in the same way everywhere. Indeed, Levitt admitted as much in an interview to celebrate the 20th anniversary of his article. He was exaggerating to make a point.

Truly global products only account for around 10-15% of our worldwide revenues. Consumers are probably more interesting for their differences than their similarities. Recent political developments support this – the collapse of the Soviet Union, Yugoslavia, devolution in Scotland and Wales, and Basque nationalism. Indeed, the European Union is really a supply-side led phenomenon, harmonising production and distribution, rather than demand. On January 1, 1993, a Euro consumer was not born.

What has been going on may well not be the globalisation of world markets, but their Americanisation. Not in the sense that upsets the French or the Germans and results in the banning of Americanisms from French commercial language, an objection to the cultural imperialism of Coke, the Golden Arches or Mickey Mouse. But more in the sense of the power and leadership of the US. In most industries, including our own, the US accounts for almost half of the world market. And given the prominence of US-based multinationals, you could argue that almost two-thirds of the advertising and marketing services market is controlled or influenced from there. If you want to build a worldwide brand you have to establish a big presence in the world's largest market – the US.

At WPP, 22 of our top 40 clients are headquartered in the US, 17 in Europe and one in Asia Pacific. Moreover, they are almost all located in the north-east corridor created by Chicago, Detroit, New York and Washington.

Failure to understand the importance of North America can be life-threatening. Take the case of the investment banking industry. Fifteen to 20 years ago, strong brands in Europe included SG Warburg, Morgan Grenfell, Schroders and Flemings. Today they have virtually disappeared and the industry is dominated by large American banks like Goldman Sachs, Morgan Stanley, Merrill Lynch and Citigroup. While strong European talent might have had misgivings about working in American multinationals a few years ago, today these businesses are more sensitively run and offer interesting, intellectually stimulating global opportunities and challenges. The European-based businesses that remain, such as Deutsche Bank, UBS and CSFB, still face the challenge of establishing a good market position in the US.

Neither is it easy to find European-based global companies. BP and Shell certainly get it, as do Unilever and Nestlé. So does DaimlerChrysler, although Jurgen Schrempp's strategy is still under attack. Vodafone, GlaxoSmithKline, AstraZeneca, L'Oreal and Sanofi are other good examples. There are not many more.

American strength is based on three factors. First, the size and power of the American market; 295 million people in a relatively homogeneous market. Despite the European Union being almost twice the size, it is much more heterogeneous. Second, the power and size of American capital markets. If you want to raise debt or equity capital, it still is the cheapest place to go. Finally, because of their strength in technology. I am hard pressed to think of many areas where they do not lead. Third-generation mobile phone technology is one, but given the prices that European companies paid for the privilege, the distinction is a dubious one.

At various times in history, when a country or empire seemed to have total political, social or economic hegemony, the situation changed and the vacuum was filled by another power. At this point in time, it may well be China that takes this role, in the context of the growth of Asia Pacific. Although this development was delayed by the tragic events of 9/11, as the US and China grappled with trying to understand actions in the Muslim world, this trend is now in full swing.

Top 100 brands by location

Location	2001 %	2002 %	2003 %	2004 %
USA	63	65	62	58
Germany	7	6	6	9
France	3	5	7	9
Japan	6	6	7	7
UK	7	5	6	5
Switzerland	3	3	3	3
Italy	2	3	2	3
Netherlands	2	2	2	3
Finland	1	1	1	1
Sweden	3	2	2	1
South Korea	1	1	1	1
Bermuda	1	1	1	0
Denmark	1	0	0	0

Source: Interbrand/Business Week

The advertising and marketing services industry

Top 10 global advertisers 2003

Rank 2003	Rank 2002	Advertiser	Headquarters	Worldwide advertising spend $m 2003	2002	% change	US measured media spending $m 2003	2002	% change	Spend by region 2003 $m Asia	Europe	Latin America
1	1	Procter & Gamble	Cincinnati	5,762	4,466	29.0	2,684	2,160	24.3	718	2,081	141
2	3	Unilever	London/Rotterdam	3,540	3,124	13.3	572	704	-18.8	826	1,861	207
3	2	General Motors Corp.	Detroit	3,412	3,278	4.1	2,367	2,399	-1.3	98	551	112
4	6	Toyota Motor Corp.	Toyota City, Japan	2,669	2,444	9.2	1,014	936	8.3	1,090	398	31
5	5	Ford Motor Co.	Dearborn, US	2,537	2,440	4.0	1,445	1,456	-0.8	98	738	95
6	4	Time Warner	New York, US	2,378	2,165	9.8	1,847	1,743	6.0	52	391	64
7	7	Daimler Chrysler	Auburn Hills, US/ Stuttgart, Germany	2,230	1,926	15.8	1,608	1,410	14.0	29	350	31
8	10	L'Oreal	Paris, France	2,180	1,588	37.3	636	574	10.8	98	1,363	30
9	9	Nestlé	Vevey, Switzerland	1,737	1,453	19.5	520	502	3.6	157	962	69
10	16	Sony Corp.	Tokyo, Japan	1,684	1,431	17.7	1,004	897	11.9	183	395	47
				28,129	24,315	15.7						

Source: Ad Age Global Marketing Report 2004

Worldwide advertising expenditure US vs non-US

Major media*	2003	2004	2005[1]	2006[1]	2007[1]
North America	158,383	167,869	174,823	183,938	193,483
Year-on-year growth	1.9%	6.0%	4.1%	5.2%	5.2%
Europe	89,985	94,839	99,144	104,164	109,925
Year-on-year growth	1.4%	5.4%	4.5%	5.1%	5.5%
Asia/Pacific	69,646	75,564	80,100	85,442	91,467
Year-on-year growth	5.0%	8.5%	6.0%	6.7%	7.1%
Latin America	14,238	15,896	16,664	17,700	18,999
Year-on-year growth	3.7%	11.6%	4.8%	6.2%	7.3%
Africa/Middle East/ROW	13,922	16,022	18,070	20,155	22,126
Year-on-year growth	19.1%	15.1%	12.8%	11.5%	9.8%
World	345,720	369,705	388,268	410,813	434,456
Year-on-year growth	3.0%	6.9%	5.0%	5.8%	5.8%

*TV, Print, Radio, Cinema, Outdoor, Internet

[1] Estimated

Source: ZenithOptimedia

Advertising expenditure as a % of GDP

	2003	2004	2005[1]	2006[1]	2007[1]
France	0.61	0.60	0.60	0.60	0.60
Germany	0.75	0.74	0.74	0.75	0.75
Italy	0.60	0.62	0.64	0.67	0.70
Japan	0.84	0.85	0.86	0.86	0.87
UK	0.95	0.98	0.98	0.99	0.99
USA	1.38	1.37	1.36	1.39	1.40
Brazil	0.75	0.76	0.76	0.76	0.76
Russia	0.61	0.73	0.84	0.91	0.9
India	0.35	0.42	0.40	0.39	0.38
China	0.54	0.57	0.59	0.63	0.67

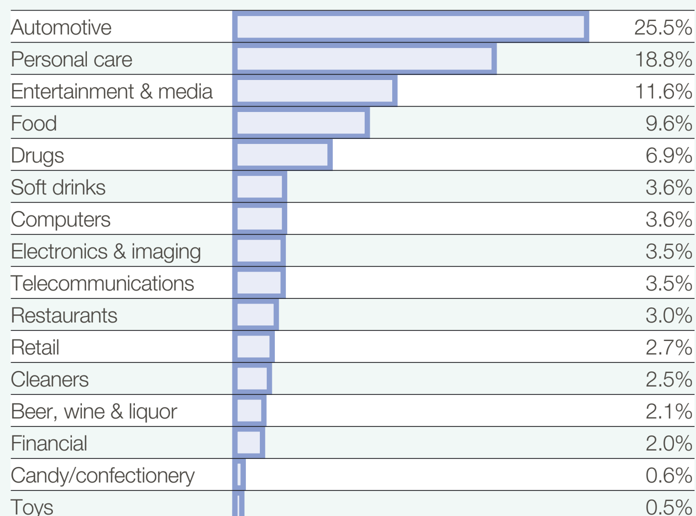
[1] Estimated

Source: ZenithOptimedia

Top 100 global marketers spending by category

by measured media bought in 2003 and 2002

	2003 $m	2002 $m	2003 % change	% total	Advertiser count
Automotive	20,928	19,234	8.8	25.5	17
Personal care	15,294	12,456	22.8	18.8	10
Entertainment & media	9,431	8,623	9.4	11.6	8
Food	7,786	6,640	17.3	9.6	9
Drugs	5,599	4,869	15.0	6.9	7
Soft drinks	2,916	2,791	4.5	3.6	3
Computers	2,904	2,439	19.1	3.6	5
Electronics & imaging	2,860	2,341	22.2	3.5	6
Telecommunications	2,822	2,149	31.3	3.5	6
Restaurants	2,471	2,417	2.2	3.0	3
Retail	2,210	1,764	25.3	2.7	6
Cleaners	2,063	1,772	16.4	2.5	3
Beer, wine & liquor	1,682	1,705	-1.3	2.1	5
Financial	1,624	1,253	29.6	2.0	4
Candy/confectionery	474	469	1.1	0.6	1
Toys	426	364	17.0	0.5	2
Total Worldwide	**81,490**	**71,286**	**14.3**	**100.0**	**95**



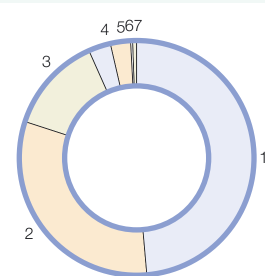
Source: Ad Age Global Marketing Report November 2004

Top 100 global marketers spending by region

by measured media bought in 2003 and 2002

	Measured advertising expenditures				
Region	2003 $m	2002 $m	2003 % change	% total	Country count
Africa	306	197	55.3	0.4	4
Asia	11,223	9,866	13.8	13.5	16
Europe	26,040	23,061	12.9	31.4	36
Latin America	2,490	2,214	12.5	3.0	11
Middle East	293	487	-39.8	0.4	11
Canada	2,118	1,117	89.6	2.6	1
US	40,363	37,305	8.2	48.7	1
Total worldwide	**82,833**	**74,247**	**11.6**	**100.0**	**80**

1	**US**	**48.7%**
2	**Europe**	**31.4%**
3	**Asia**	**13.5%**
4	**Latin America**	**3.0%**
5	**Canada**	**2.6%**
6	**Middle East**	**0.4%**
7	**Africa**	**0.4%**



Source: Ad Age Global Marketing Report November 2004

Asia Pacific: a giant opportunity unfolds

It is difficult for those of us in the West to comprehend the scale of Asia Pacific's potential development. China is not just one country; it consists of more than 30 provinces, with so many languages and dialects that Mao Tse Tung needed an interpreter. But it is equivalent to four or five Americas. It is true also that currently only 150-200 million Chinese can afford the goods and services we are trying to market to them. However, this is already equivalent to over half an America and this is a dynamic situation, one that will change rapidly in the coming years. Furthermore, India – itself equivalent to three to four Americas – seems to have been stimulated into more rapid growth, driven perhaps by neighbourhood envy and the Chinese model of state directed capitalism. Do not underestimate the potential of the region as rapprochement spreads even to cricket, with the Indian-Pakistani test and one-day series representing as important a political, economic and social signal as the Beijing Olympics.

Asia Pacific will dominate again. This really is back to the future. In 1820 China and India generated around 49% of worldwide GDP. In 2025, these two countries are forecast to be headed for the same level again, having bottomed out at 8% in 1973. Currently, China and India represent over one-third of the world's population. Asia Pacific represents one-half. By 2014, Asia Pacific will represent over two-thirds. Greater China is already WPP's fifth largest market in which we have a dominant 15% share. In India, our market share is almost 50%, with a 25% share in South Korea. In Japan, it is almost 10%, behind the dominating Dentsu and HDY, but the largest gaijin firm.

China's development has been rapid and will continue. The Chinese government is conscious of potential over-heating and an imbalance in regional rates of development between the coastal regions and the hinterland. There has already been a soft-landing slow down in growth, which

The advertising and marketing services industry

US/non-US revenue splits for top 25 S&P 500 companies 2004

Company	Market value $m	US sales $m	US sales %	Non-US sales $m	Non-US sales %
General Electric Co.[1]	381,597	80,101	60	54,086	40
Exxon Mobil Corp.	381,652	88,302	30	209,725	70
Microsoft Corp.	264,171	25,046	68	11,789	32
Citigroup Inc.	233,625	50,889	47	57,386	53
Wal-Mart Stores	214,284	208,908	81	47,421	19
Johnson & Johnson	202,982	27,770	58	19,886	42
Pfizer Inc.	194,527	29,929	57	22,188	43
Bank of America Corp.	180,103	46,156	94	2,738	6
IBM	148,814	35,637	37	60,656	63
American International Group Inc.[1]	146,633	45,315	56	35,988	44
Intel Corp.	146,210	6,563	19	27,646	81
Procter & Gamble	133,671	25,703	50	25,703	50
Altria Group, Inc.	132,226	37,729	42	51,881	58
J.P. Morgan Chase & Co.[1]	124,502	24,118	73	9,138	27
ChevronTexaco Corp.	122,815	79,929	47	90,315	53
Cisco Systems Inc.	116,092	12,233	55	9,812	45
Wells Fargo	100,150	n/a	n/a	n/a	n/a
Coca-Cola Co.	98,861	6,643	30	15,319	70
Verizon Communications Inc.	96,948	69,173	97	2,110	3
Dell Inc.	95,138	32,940	67	16,265	33
PepsiCo Inc.	87,264	18,329	63	10,932	37
Home Depot	83,556	64,167	99	649	1
Time Warner Inc.[1]	81,898	32,123	81	7,442	19
UPS	81,333	28,035	77	8,547	23
Average	**160,377**	**46,771**	**57**	**34,676**	**43**

[1] 2003 figures

Sources: Standard & Poor's, company annual reports, Bloomberg, Hoovers

World's 10 most valuable brands

Rank	Brand	2004 brand value $m	2003 brand value $m	% change	Industry	Country of ownership
1	Coca-Cola	67,394	70,453	-4	Food & beverages	USA
2	Microsoft	61,372	65,174	-6	Software	USA
3	IBM	53,791	51,767	4	Technology	USA
4	GE	44,111	42,340	4	Industrial	USA
5	Intel	33,499	31,112	8	Technology	USA
6	Disney	27,113	28,036	-3	Travel & leisure	USA
7	McDonald's	25,001	24,699	1	Retail	USA
8	Nokia	24,041	29,440	-18	Technology	Finland
9	Toyota	22,673	20,784	9	Automotive	Japan
10	Marlboro	22,128	22,183	0	Leisure goods	USA

Source: Interbrand/Business Week 2004, Bloomberg

Overview of world economic outlook projections GDP growth %

	2001	2002	2003	2004[1]	2005[1]
World	2.4	3.0	3.9	5.0	4.3
Advanced economies	1.2	1.6	2.1	3.6	2.9
USA	0.8	1.9	3.0	4.3	3.5
Euro area	1.6	0.8	0.5	2.2	2.2
Germany	0.8	0.1	-0.1	2.0	1.8
France	2.1	1.1	0.5	2.6	2.3
Italy	1.8	0.4	0.3	1.4	1.9
Japan	0.4	-0.3	2.5	4.4	2.3
UK	2.3	1.8	2.2	3.4	2.5
Canada	1.8	3.4	2.0	2.9	3.1
Other advanced economies	1.7	3.0	2.3	3.8	3.1
Other emerging market & developing countries	4.0	4.8	6.1	6.6	5.9
Africa	4.0	3.5	4.3	4.5	5.4
Sub-Sahara	3.9	3.6	3.7	4.6	5.8
Developing Asia	5.5	6.6	7.7	7.6	6.9
China	7.5	8.3	9.1	9.0	7.5
India	3.9	5.0	7.2	6.4	6.7
Middle East	3.6	4.3	6.0	5.1	4.8
Western hemisphere	0.5	-0.1	1.8	4.6	3.6
Brazil	1.3	1.9	-0.2	4.0	3.5
Central & Eastern Europe	0.2	4.4	4.5	5.5	4.8
CIS & Mongolia	6.4	5.4	7.8	8.0	6.6
Russia	5.1	4.7	7.3	7.3	6.6
Excluding Russia	9.4	7.0	9.0	9.6	6.5

[1] Estimated
Source: IMF 2004

presents more opportunity for investment. 2008 represents a huge opportunity. No self-respecting multi-national company bent on expanding into China or national company seeking to grow inside or outside China will miss out on the branding opportunity presented by the Olympics in Beijing. The Chinese government is already committed to $45 billion of investment around the Games, in a year that will also be stimulated by a US Presidential election that may feature a contest between Senator Hillary Clinton and Secretary of State Condoleezza Rice. 2008 should be a whopper. And it will not end there. The Municipality of Shanghai will be investing $3 billion in Expo 2010.

Watch out for growing Chinese military influence. Recent economic contact with Fidel Castro in Cuba counterbalances Taiwanese tensions. Chinese investment in Galileo's GPRS systems drew a coruscating response from the Pentagon. Beijing will not be prepared to rely on America to defend its vital and growing energy supply interests in the Middle East and Russia.

The other challenge to American dominance may well come from the Muslim world. Already, Muslims number 1.5 billion people or a quarter of the world's population. By 2014, Muslims will number 2.1 billion or 30% of the projected world's population. The recent struggles in Afghanistan and Iraq really only continue the conflicts of the 1950s in Suez, the oil price increases of the 1970s and the invasion of Kuwait in the 1990s. Westerners have made little attempt to understand the Muslim mind and assume they have the same value systems and beliefs. They are different and it will be increasingly necessary to make a serious and sincere attempt to understand them.

These events may demand new thinking from the world's multinational companies. As US-centric companies, for example, seek to develop their businesses and extend their reach into more heterogeneous markets, it may well be that the balance of organisations will shift. There will continue to be a focus on global, max or core brands, with sales of more than $1 billion, particularly to counterbalance the power of global retailers and as companies become less dependent on the US markets. Coca-Cola's geographic coverage of a third in North America, a third in Europe and a third in Asia Pacific and Latin America will become more the norm, rather than Pepsi-Cola's 63% in the US.

A local approach to more heterogeneous markets

However, given this geographic expansion, there will also be a need to develop more sensitive, local organisations that respond to national opportunities and challenges more readily. The past 10 to 15 years have seen, quite rightly, a diminution of power of country managers, as companies sought to reduce needless duplication and stimulate the sharing of knowledge. Eradicating geographic silos and fiefdoms made sense. However, as country-based organisations have become more complex and sizeable, there may be a need to develop more focus at a country level. Several clients have started to re-build country organisations and re-appoint country managers or ambassadors.

As a result, regional management has been scrutinised. With the development of technology and communications, organisational span-breakers may not be so necessary. In addition, given the complexity of regional tasks, regional managers really become glorified financial directors. The average agency regional director in Europe, for example, may have to cover 100 offices in a 250-day working year. Difficult to add significant value spending an average of one to two days in each office a year, even if he or she travelled all year.

At WPP, we are experimenting with two new organisational responses. First, Global Client Leaders to manage big clients across WPP on a worldwide basis. Second, WPP Country Managers focusing on three key issues – people, local clients and acquisitions. Both responses cause angst to our operating company or tribal leaders. Both cut across the traditional organisational structures. Both demand new ways of working together, denying turf, territory and ego. But, both are necessary, responding to client needs and developments. Organisations are becoming more and more networked and less and less pyramidic. Perhaps the 21st century is not for tidy minds.

2. Overcapacity and the shortage of human capital

The single biggest long-term issue facing our clients in most industries is overcapacity. In fact, it is difficult to find many cases where the opposite is true; Tequila, perhaps, where it takes seven years to grow the herb, or watches or high fashion companies like Rolex or Hermes where supply is limited. It is also true that commodity-based industries, like oil and steel, no longer face over-capacity issues, being overwhelmed by Indian and Chinese demand. But most industries face situations similar to the car and truck industry, where companies can make 80 million units and consumers consume 60 million.

Overcapacity issues are particularly difficult to deal with in politically sensitive industries like automobiles. Governments are not enthusiastic about shutting down capacity and increasing unemployment. They also like to increase capacity by offering inducements to locate new

production facilities in development regions. Thus the best thing for the European car industry would probably have been for GM to absorb Fiat's production capability. But Italian Prime Minister Silvio Berlusconi could not countenance more unemployment in the Mezzogiorno. The same issue faces the British government with Rover particularly during an election campaign.

The critical issue in the 19th and 20th centuries was how to produce goods and services, and to make sure they reached the consumer. In the 21st century, it is convincing the consumer to purchase your product, service or brand in the first place.

In such circumstances differentiation becomes critically important, and differentiation is what our business is about. Historically, maintaining technical or product differences was easier. Today keeping a technological lead is difficult. Product life-cycles are being shortened and brand cycles lengthened. Again, an example from the car industry; less than a decade ago it took five years to design, produce and market a car. Today, it can be done in 18 months. Led by the aggressive Japanese, South Korean and German manufacturers, the Americans have followed. (Hyundai may well become the Samsung of the automotive industry.)

Intangible differentiation is, then, becoming more important. Psychological, life-style and emotional differences are significant. The suit or dress you wear, the car you drive, the holidays you take, how you spend your leisure time – all say a lot about your personality and preferences. Some find such intangible appeal immoral or at least unsavoury. Preying on people's vulnerabilities, it is said, is unethical. However, we believe that fulfilling people's desires or dreams is almost always justifiable and satisfying for the consumer – and it is a key role for the advertising and marketing services industry.

While there is certainly too much production and capacity in general, what specific resource in the 21st century is in ever shorter supply? The answer is human capital. Every demographic statistic points to a reduction. The slowing birth rate, declining marriage rates, higher divorce rates, more single parent families, smaller families, ageing populations – all these factors are reducing the supply of talent. Even countries with strong, younger demographics, such as Mexico, will face similar situations by 2020. There are examples of government campaigns trying to stimulate the birth rate. Western Europe and Japan face significant economic growth issues as a result of the declining proportion of young people and an overall population decline.

All this points to the growing importance of attracting, recruiting, developing, training, motivating, incentivising and retaining human capital. In a less differentiated world, it will become more and more important for companies to stand out through the quality and responsiveness of their people. Making sure that your people buy into your strategy and structure will be increasingly important. Living the brand – operationally – will be critical.

3. The web: not dead, growing fast

Since the dotcom implosion of 2000 it has become fashionable to dismiss the web. However, WPP's smarter clients and those who missed out on opportunities in the 1990s have taken advantage of depressed values and a contrarian position. Web activity, broadly defined, currently accounts for more than $1.5 billion of WPP Group revenues, or more than 15%, and it is growing rapidly.

There seem to be three reasons why. First, there is still the threat of disintermediation. A horrible word; perhaps some explanation is needed. Let's take an example from our own business. More than $1 billion of WPP's revenues come from market research. Traditionally, research has been done on the phone and through the post. The process is long and cumbersome. A questionnaire has to be designed, distributed and filled in by consumers or interviewers. Then data is collected, analysed and conclusions developed. It can all take three to six months. Many CEOs despair that by the time the solution has been identified, the problem has changed. Using the internet, however, the research process can be transformed and responses obtained almost instantly. WPP's Lightspeed panel interrogates more than six million consumers globally and can deliver answers inside 24 hours.

Second, you continue to be disintermediated by lower-cost business models that are evaluated by investing institutions in new and different ways. Despite the recent vicious compression in valuations and consequent losses, the financiers of new media and technology companies still focus on sales, sales growth and market share, rather than on operating profits, margins, earnings per share and return on capital employed.

Finally, the internet and new media companies still steal your people. After the bankruptcies and failures, many young people returned to the more traditional businesses they had left. WPP lost a number of such bright talents and later welcomed some back to the fold. I myself conducted a number of so-called re-entry interviews and hoped to see and hear that the returnees were relieved to have their jobs back. Far from it: few grovelled. Instead they admitted that, given the opportunity again, they would take it or seize a similar one.

Clearly, the age of apprenticeship inside large corporations is finished. It was weakened by the corporate downsizing of the 1980s and 1990s, and the final nail in the coffin was the internet boom of the late 1990s. Young, bright talent will always seek out new, flexible, un-bureaucratic, responsive companies. Staying with one company for 40 years or so – as my father did and advised me to do – no longer seems the best career choice. However, some recent polling and attitudinal analysis in the UK shows younger people want a better work-life balance. Hedge funds, for instance, are more attractive than investment banks, offering fixed work times and not demanding all-night toil.

4. Internal communications: more important than external

Given the scale of strategic and structural change going on inside most companies, one of the most important challenges facing CEOs is to communicate that change internally. Internal communication to secure internal alignment is, perhaps, a polite way of putting it. Probably the biggest block to progress for our clients – and perhaps ourselves – is internal politics. Turf, territory and ego prevent productive change. If the chairmen or CEOs of our clients saw what we saw, they would be horrified. If they and we devoted 50% of the time that they or we spent on internal politics on the consumer, client or competition, they and we would be considerably more successful.

You could argue that most of the communication we co-ordinate is aimed at internal audiences rather than external ones. As some people, such as Allan Leighton when he was at Asda (now Wal-Mart), have maintained, making sure your internal constituencies are on side is often more important than external ones. Only when internal communications are working can your company talk positively to customers, suppliers, potential customers, potential employees, journalists, analysts, investors, government and NGOs.

Building such virtuous circles in a uni-branded company is one thing. Inside a multi-branded company such as WPP which has grown by acquisition, where our tribes operate independently to deal with dis-economies of scale and client conflict, it is far more complicated. Trying to ensure 84,000 people face in the same direction at the same point in time is not easy. On the other hand, once achieved, internal unison and common focus make up a very, very powerful army.

Most of our companies develop internal communications through advertising, media investment management, information, insight and consultancy, public relations and public affairs, branding and identity, and healthcare and specialist communications. However, no single operating entity exists within WPP to execute internal communications on a worldwide basis. Still an opportunity for the future.

5. The concentration in distribution – CEOs' most pressing issue

Whenever we ask CEOs what keeps them awake at night or worries them when they get up in the morning, they almost always give the same answer: distribution. Some 18% of Procter & Gamble's worldwide sales (pre-Gillette) go through Wal-Mart. The figure is probably 25-30% in US sales. Henkel recently bought Dial Corp, 30% of whose sales go through Wal-Mart. Clorox, another Henkel-connected company, sells 30% of its US products through Wal-Mart. One of WPP's media partners sells 10% of its cover sales through Wal-Mart. To the media owner, this is life or death. To Wal-Mart it is a rounding error and the province of the third or fourth level of procurement, making the publisher's life a misery. More people visit Wal-Mart in the US in one week, than go to church on a Sunday. Indeed, some say Wal-Mart is the new religion. Wal-Mart, with $285 billion of sales, is the seventh largest 'country' by retail sales, not far behind China. Wal-Mart accounts for 8% of US retail sales, Tesco for 11% of UK retail sales and 24% of the UK grocery market.

Influence over and control of distribution is not a new issue. In a sense, it is back to the future. After all, advertising was developed in the 19th century by manufacturers to appeal over the heads of wholesalers or retailers direct to consumers. Increasing retail concentration – not only in the US but also in Europe and Latin America in particular – will only emphasise the importance of focusing on product innovation and branding, along with better understanding of point-of-purchase consumer behaviour and emphasis on packaging, point-of-purchase display and retail design. After all, as one senior Asia Pacific Procter & Gamble executive said recently, depending on which P&G brand you are talking about, something between 30% and 80% of purchasing decisions are made at the point of sale. Procter terms it "the first moment of truth".

WPP believes that an understanding of distribution and retail is essential and it is one of our core practice development areas. The Store, our virtual retail agency, links more than 900 retail professionals around the world, updating them on the latest developments and trends – subject to client confidentiality. Management Ventures in Boston – with more than 50 global retail analysts – along with Cannondale and Glendinning Associates, both experts in channel management, supplement and consolidate our knowledge of global retailing.

In addition, 141 Worldwide gives the Group an even broader distribution offer with its focus on product categories that have been denied access to traditional media.

Conclusion

With recessionary forces abating in 2003 and quadrennial forces driving the industry to new highs in 2004, the short-term picture for the communications services industry has improved. The next quadrennial cycle of 2005-2008 looks stronger.

The immediate issues of government overspending, consolidation among clients, media owners, retail and agencies, increasing trade and price promotion, fees, procurement and outsourcing, media fragmentation and super-agencies all bring opportunities as well as threats. 2005 should show more improvement.

In the longer term, advancing Americanisation and the growth of Asia Pacific, overcapacity and the shortage of human capital, the web, the demand for internal communications and retail concentration should together underline and assure the importance of our industry and its constituent parts, advertising and marketing services. The latter as a proportion of GNP will burst through the cyclical high established at the peak of the internet boom in 2000. ■

Why is a Good Insight Like a Refrigerator?

Here is an Insight: *"Product satisfaction arises less from inherent construction and performance than from consumers' internalised perceptions of personal utility."*

You may have found it faintly familiar; and – when you finally worked out what it meant – more than faintly obvious. What you won't have found it to be is exhilarating, inspiring, memorable, actionable, evocative. You will not have been tempted to repeat it to colleagues or include it in your next internal newsletter. Certainly, it contains a truth – and an important truth at that; but it just sits there.

Between 40 and 50 years ago, Professor Theodore Levitt famously told his Harvard Business School students: "People don't want quarter-inch drills. They want quarter-inch holes." It's been quoted a million times ever since and enlightened generations of marketing people. But what if Professor Levitt had chosen to say this:

"Product satisfaction arises less from inherent construction and performance than from consumers' internalised perceptions of personal utility."

(Doesn't improve with repetition, does it?)

His diligent students would have noted it down; but it would never have been quoted and it would have enlightened nobody.

Whether from their research companies or their communications agencies, marketing companies today are unanimous in demanding insights. There seems to be no universal agreement on what an insight is but a reasonable definition would seem to be something like this: *"A new understanding, probably of human behaviour or attitude, as a result of which action may be taken and an enterprise more efficiently conducted."*

Why is a Good Insight like a Refrigerator?

The call for insights is natural. To return to Levitt's dictum, marketing companies don't want research; they want enlightenment. Conventional market research, professionally conducted, can paint an invaluable picture of the immediate past; but companies also need help in forging their futures. That's what lies behind the demand for insights – but not all insights are equal. They come in two very different styles and with very different values. There are low-potency insights and there are high-potency insights.

"Product satisfaction arises less from inherent construction and performance than from consumers' internalised perceptions of personal utility" is a low-potency insight. *"People don't want quarter-inch drills. They want quarter-inch holes"* is a high-potency insight.

And the difference in value between these two has nothing to do with the intrinsic observation itself. Both assertions contain the same truth. In fact, to be really pedantic, the low-intensity version, when scrutinised carefully, actually turns out to be more accurate and more comprehensive than the Levitt version – because, of course, people don't want quarter-inch holes any more than they want quarter-inch drills. They want bookshelves or wall lamps or rabbit hutches. The low-potency version, with its reference to "consumers' internalised perceptions of personal utility" neatly covers this point: but at what cost. Literal accuracy prevails but inspiration is smothered. Where the low-potency insight utterly fails is in instant, heart-lifting revelation. It never elicits that immediate, exultant response: "Yes, of course! That's exactly how it is!"

Bold hypothesis

This is familiar stuff to all creative agencies. The account planner or strategist who comes up with an immaculate and scrupulously accurate relief map of the brand and its market – and absolutely nothing else – will not be greatly loved by the creative group. By definition, a good creative brief contains a bold hypothesis. To generate hypotheses you need to speculate: you need to progress from the known to the unknown. But you cannot paint the future in the colours of the past. Other people's imaginations need to be engaged, excited, signed on as accomplices. And the choice of the language you use is not arbitrary and inconsequential; for an insight to have real potency, the language in which it is couched is at least as important as the inner truth itself. For an insight to have real potency, literal accuracy is less important than its power to evoke.

A long time ago, I wrote a short piece about brands in which I said: "People build brands as birds build nests, from scraps and straws we chance upon." And I've been extremely gratified ever since to find this phrase quite widely picked up and approvingly quoted.

I've also been amazed that no one has ever challenged it; because, as I can now exclusively reveal for the first time, it's demonstrably untrue on at least two counts.

As every ornithologist knows, birds don't build their nests from scraps and straws they chance upon; they know exactly what raw materials they need and they set out deliberately to find them: mud, sheep's wool, moss, twigs – are all knowingly sought out and secured. That is how birds build nests; but is not, of course, at all how consumers build brands.

Nor do we, as consumers, chance upon most brand clues: they are laid in our path by the brand's owner – the packs, the promotions, the price, the advertising – in the cunning hope and expectation that the brand we thereby build will be the one we'll come to love and favour.

Had I been more responsible, more concerned with accuracy and truth, this is what I should have written all those years ago: *"Stakeholders form the framework of brand concepts less from holistic perceptions than from the convergence of disaggregated structural elements."*

It's no new game to mock marketing language – though too much of it still continues to invite mockery. There are times when marketing language kills thought, strangles speculation, anaesthetises the imagination. While marketing jargon remains guilty of these crimes against understanding, it deserves to be mocked. But there's an even more serious point to be made.

In business, we seem to want to follow the linguistic philosophers; to believe that the rigorous researcher or the business professional deals only in matters of fact; always defines terms; and aims for the total elimination of ambiguity. In fact, of course, if every word employed is underpinned by definition, it follows that every definition employed needs to be underpinned by definition – and so on into what is called infinite regression. In the pursuit of economy and precision, we achieve instead circumlocution, opacity and chaos.

"Stepping stones for thought"

Instead, when searching for high-potency expression of sometimes complex insights, it's a great deal more fruitful to accept the limitations of language; and to agree with Arthur Koestler when he says that "Words in themselves are never completely explicit; they are merely stepping stones for thought." (It's a wonderful sentence that; not only an important insight, but an elegant example, in itself, of the very truth it contains.)

High-potency insights, because of their immediacy – because they evoke as well as inform – behave like the best viral ads on the internet. They are infectious; we only have to hear them once to remember them, to apply them, to pass them on to others. By contrast, the low-potency insight sits there sullenly on its PowerPoint slide, moving absolutely nobody to enlightenment, let alone action.

Insights framed in high-potency terms invariably avoid the direct and the explicit. They stay close to the original meaning of wit: communications of great economy achieved through the use of unexpected associations between contrasting or disparate words or ideas. Koestler calls it bisociation.

Metaphors, analogies and similes invite the receivers' participation, as in a joke; so that the point is not rifled relentlessly home but is 'seen'. Examined forensically,

most high-potency insights won't even be semantically accurate. That's because they work not through description but through allusion. They should, however, convey a greater truth.

Giving high potency to an insight is an intensely creative act: it requires a massive injection of imagination. As with any other creative act, it also demands an understanding of what is already in the receiver's mind; and just as importantly, what is not already in the receiver's mind. Metaphors, similes and analogies work only when the reference points are already familiar to their audience. Levitt's audience already knew about drills and holes.

Poets, of course, do it instinctively. That's why the works of Shakespeare contain so many quotations. For a short, cheap course in evocative communication, the *Oxford Dictionary of Quotations* can be highly recommended.

The origins of an insight are usually to be found in numbers. That's how we know an insight to be more than airy whim; that's how we know it has substance; that it can be tested and replicated. But, except to the supernaturally numerate, numbers seldom sing spontaneously. For the rest of us, numbers conceal enlightenment at least as effectively as jargon. That's when we need to call on words – provocative, allegorical words – to let in fresh air; to liberate the insight and give it immediate, self-evident potency. In both research companies and creative agencies, there are people we know who can effect this alchemy. They do it every time they turn dry, mechanistic market analysis, first into creative strategy and then (occasionally) into sublime creative execution. We should use them more often, consciously and deliberately, to cast the same spell on recalcitrant data.

It's no new thought to suggest that the value of an insight, the utility of an insight, is dependent not only on the originality and accuracy of that insight but at least as much on the potency of its expression. It's exactly what Alexander Pope was getting at:

"True wit is nature to advantage dress'd, What oft was thought but ne'er so well express'd."

It is almost certainly the case that, already paid for, there's a great Aladdin's cave of knowledge out there: but as yet unlocked by consummate expression. It's as if great quantities of rough and unappealing diamonds had already been mined – and then left to moulder in a warehouse. In the real world of diamonds, of course, that would never be allowed to happen. If diamonds are to deliver their real value, they need to be cut and polished.

We mine for insights, too. And we should be as insistent as the diamond trade that, once unearthed, they be cut and polished – and made to glitter and inspire.

So to return to the beginning:

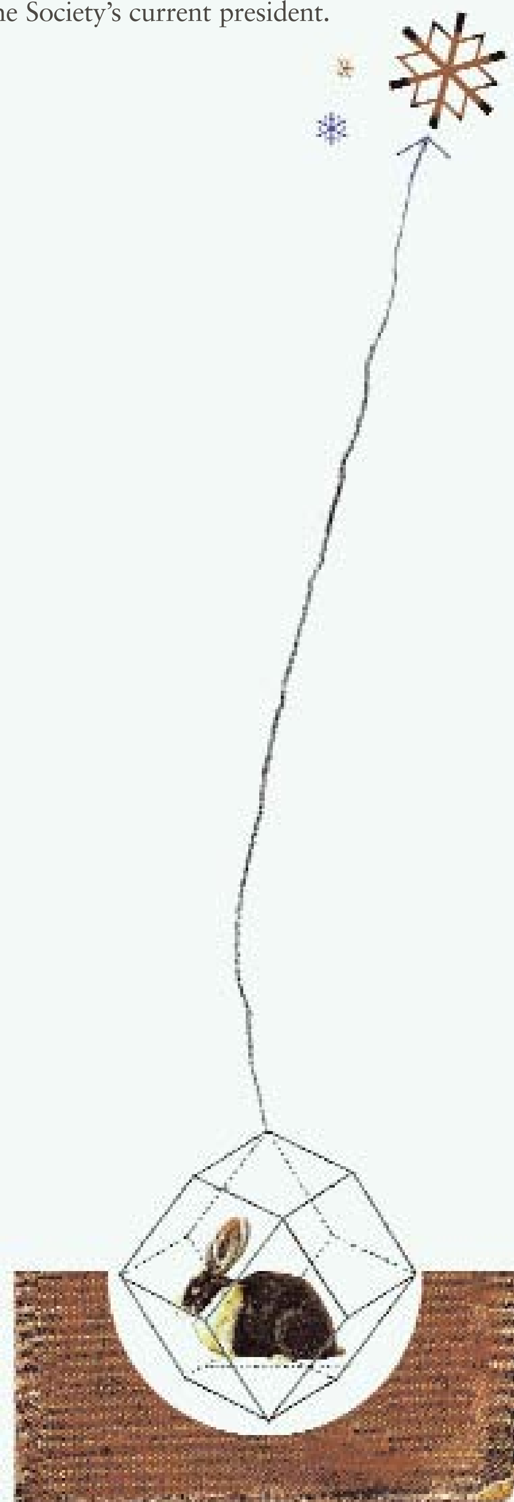
Why is a Good Insight Like a Refrigerator?
Because the moment you look into it, a light comes on.

Jeremy Bullmore
Member
WPP Advisory Board

Acknowledgements

■ The low-potency versions of Levitt's drill and my bird's nest aphorisms were written by Stephen King. A lifelong enemy of marketing jargon, he can parody it with devastating effect and I'm extremely grateful to him.
I also invited him to produce a low-potency version of anything from Shakespeare. He chose the Polonius speech from Hamlet, "Neither a borrower nor a lender be…"
"In overseas assignments it is essential to keep an appropriate and sustainably balanced credit/debit ratio. Unsecured loans may be irrecoverable and can endanger potentially profitable relationships, while sporadic borrowing inflows can conceal the underlying reality of cash flow projections."

■ Many of the ideas and illustrations in this essay began life in a Keynote Address to The Market Research Society Conference, London, March 2005.
The author is the Society's current president.



Who runs WPP

Members of the Board of directors
Philip Lader – Non-executive chairman
Sir Martin Sorrell – Chief executive
Paul Richardson – Finance director
Howard Paster – Director
Mark Read – Strategy director
Esther Dyson – Non-executive
Orit Gadiesh – Non-executive
David Komansky – Non-executive
Christopher Mackenzie – Non-executive
Stanley (Bud) Morten – Non-executive
Koichiro Naganuma – Non-executive
Lubna Olayan – Non-executive
John Quelch – Non-executive
Jeffrey Rosen – Non-executive
Paul Spencer – Non-executive

Members of the Advisory Board
Jeremy Bullmore
John Jackson

Company Secretary
Marie Capes

Philip Lader Age 59 Non-executive chairman
Philip Lader was appointed chairman in 2001. The US Ambassador to the Court of St James's from 1997 to 2001, he previously served in several senior executive roles in the US Government, including as a Member of the President's Cabinet and as White House Deputy Chief of Staff. Before entering government service, he was executive vice president of the company managing the late Sir James Goldsmith's US holdings and president of both a prominent American real estate company and universities in the US and Australia. A lawyer, he is also a Senior Advisor to Morgan Stanley, a director of RAND, Marathon Oil and AES Corporations, a member of the Council of Lloyd's (Insurance Market), a trustee of the British Museum and a member of the Council on Foreign Relations.

Sir Martin Sorrell Age 60 Chief executive
Sir Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year.
e-mail: msorrell@wpp.com

Paul Richardson Age 47 Finance director
Paul Richardson became Group finance director of WPP in 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide functions in finance, information technology, procurement and property. Previously he spent six years with the central financial team of Hanson PLC. He is a chartered accountant and member of the Association of Corporate Treasurers. He is a non-executive director of Chime Communications PLC and STW Communications Group Limited in Australia, both of which are companies associated with the Group.
e-mail: prichardson@wpp.com

Howard Paster Age 60 Director
Howard Paster was appointed a director in January 2003. He was previously chairman and chief executive officer of Hill & Knowlton, Inc. He joined the WPP parent company in August 2002, overseeing WPP's portfolio of public relations and public affairs businesses. He is also the director responsible for the Company's corporate responsibility policy. Prior to joining Hill & Knowlton Inc., he served as assistant to President Clinton and director of the White House Office of Legislative Affairs. He is a member of the board of trustees of Tuskegee University, president of the Little League Foundation and a member of the Council on Foreign Relations.
e-mail: hpaster@wpp.com

Mark Read Age 38 Strategy director
Mark Read was appointed a director in March 2005. He has been WPP's director of strategy since 2002. He worked at WPP between 1989 and 1995 in both parent company and operating company roles. Prior to rejoining WPP in 2002, he was a principal at the consultancy firm of Booz-Allen & Hamilton and founded and developed the company WebRewards in the UK.
e-mail: mread@wpp.com

Esther Dyson Age 53 Non-executive director
Esther Dyson was appointed a director in 1999. She recently sold her business, EDventure Holdings, to CNET Networks, the US-based interactive media company. She remains editor of her newsletter, *Release 1.0*, and continues to host the annual PC Forum conference under CNET's ownership. She is an acknowledged luminary in the information technology industry, highly influential for the past 20 years on the basis of her state-of-the-art knowledge of the online/information technology industry worldwide, as well as the emerging information technology markets of Central and Eastern Europe. An angel investor as well as an analyst/observer, she recently participated in the sale of Flickr to Yahoo!. She sits on the boards of other IT start-ups including EVDB, Meetup.com, NewspaperDirect (Canada), CV-Online (Hungary) and Yandex (Russia). She sat on the consumer advisory board of Orbitz until its recent sale to Cendant.

Orit Gadiesh Age 54 Non-executive director
Orit Gadiesh was appointed a director in April 2004. She is chairman of Bain & Company, Inc. and a world-renowned expert on management and corporate strategy. She holds an MBA from Harvard Business School and was a Baker Scholar. She is a board member of the HBS Visiting Committee (Harvard Business School) and Dean's Advisory Board (Kellogg School) in the US and the Haute Ecole Commerciale in France. She sits on the Boards of the Federal Reserve Bank of New England and the Peres Institute for Peace and is a member of the Council of Foreign Relations.

David H Komansky Age 66 Non-executive director
David Komansky was appointed a director in January 2003. He was chairman of the Board of Merrill Lynch & Co, Inc, serving until his retirement on 28 April 2003. He served as chief executive officer from 1996 to 2002, having begun his career at Merrill Lynch in 1968. Among many professional affiliations, he serves as a director of Black Rock, Inc. and as a member of the International Advisory Board of the British American Business Council. Active in many civic and charitable organisations, he serves on the Boards of the New York Presbyterian Hospital, the American Museum of Natural History and the National Academy Foundation.

Christopher Mackenzie Age 50 Non-executive director
Christopher Mackenzie was appointed a director in 2000. He is chief executive of Equilibrium, a London-based financial advisory partnership, and Executive Chairman of Brunswick Capital, Russia's leading investment bank and non-bank financial services group. He is also a board member of ALJ, Saudi Arabia's largest non-government industrial group. Previously he was president and CEO of Trizec Properties and a company officer of GE, heading GE Capital's international business development.

Who runs WPP

Board of directors

Stanley (Bud) Morten Age 61 Non-executive director
Bud Morten was appointed a director in 1991. He is a consultant and private investor. He is currently the Independent Consultant to Citigroup/Smith Barney with responsibility for its independent research requirements. Previously he was the chief operating officer of Punk, Ziegel & Co, a New York investment banking firm with a focus on the healthcare and technology industries. Before that he was the managing director of the equity division of Wertheim Schroder & Co, Inc. in New York. He is a non-executive director of Register.com Inc., a NASDAQ-listed US public company.

Koichiro Naganuma Age 60 Non-executive director
Koichiro Naganuma was appointed a director in February 2004. He is president and group chief operating officer of Asatsu-DK, also known as ADK. Joining the agency in 1981, he began his career with the international arm of the agency. His mandate thereafter expanded to the total operation of the group. He replaced ADK Chairman Masao Inagaki on the Board who retired upon the appointment of Mr. Naganuma. ADK is Japan's third largest advertising and communications company, and ninth largest in the world. WPP took a 20% interest in ADK in 1998.

Lubna Olayan Age 49 Non-executive director
As CEO of Olayan Financing Company, Lubna Olayan is responsible for the Olayan Group's business and investments in Saudi Arabia and the Middle East. In December 2004, she was elected to the Board of Saudi Hollandi Bank, the first woman to be elected to the board of a Saudi listed company. From 1996 through 2004, she served on the board of Chelsfield, the UK property developer. She is a member of INSEAD's International Council and a trustee of the Arab Thought Foundation. She is also a member on the Arab Business Council and the Women's Leadership Initiative of the World Economic Forum.

John Quelch Age 53 Non-executive director
John Quelch was appointed a director in 1988. He is Senior Associate Dean and Lincoln Filene Professor of Business Administration at Harvard Business School. Between 1998 and 2001 he was Dean of the London Business School. He also serves as chairman of the Massachusetts Port Authority. Professor Quelch's writings focus on global business practice in emerging as well as developed markets, international marketing and the role of the multinational corporation and the nation state. He is a non-executive director of Inverness Medical Innovations, Inc. and Pepsi Bottling Group Inc. He served previously on the boards of Blue Circle Industries plc, easyJet plc, Pentland Group plc and Reebok International Limited.

Jeffrey A. Rosen Age 57 Non-executive director
Jeffrey Rosen was appointed a director in December 2004. He is a deputy chairman and managing director of Lazard LLC. Previously, he was a managing director of Wasserstein Perella & Co., Inc. since its inception in 1988, and chairman of Wasserstein Perella International. He has over 30 years' experience in international investment banking and corporate finance. He is a member of the Council on Foreign Relations. In July 2005, he will become president of the Board of Trustees of the International Center of Photography in New York.

Paul Spencer Age 55 Non-executive director
Paul Spencer was appointed a director in April 2004. He is a financier with 20 years' experience in the financial management of a number of blue chip companies, including British Leyland PLC, Rolls-Royce PLC, Hanson PLC and Royal & Sun Alliance PLC. He served as UK chief executive of Royal & Sun Alliance PLC between 1999 and 2002. He is the non-executive chairman of State Street Managed Pension Funds and of Goshawk Insurance Group PLC. He is also chairman of the Association of Corporate Treasurers' Advisory Board and of NS&I (National Savings), a UK government-owned retail savings institution. He is also on the boards of Nipponkoa Insurance Europe Ltd, Sovereign Reversions Group plc and Britannic Group plc. Paul is a governor of Motability, a UK charity for the disabled.

The following also served as directors during the year:
Beth Axelrod – resigned 24 March 2005.
Jeremy Bullmore – retired 30 September 2004.
John Jackson – retired 30 September 2004.
Michael Jordan – retired 28 June 2004.

Senior officers and advisors to the Board

Strategic thinking, creativity and client co-ordination
P Dart
N French
J Steel

Corporate and geographical development
A G B Scott
A Newman
R Smits
C Black

Branding & identity, Healthcare and Specialist communications services
J F Zweig
M E Howe

Human resources
M Linaugh
A Jackson
W Savage

Property
E Bauchner
J Murphy

Procurement
T Kinnaird
V Chimienti
P Gomes
K Liew
P Permanne

Information technology
D A S Nicoll
S Blackburn
A Garlick
S O'Byrne

Knowledge Communities
M Johnson
D Muir

Financial control and management reporting
D Barker
C Sweetland
N Douglas
S Winters
K Gill

Treasury
P Delaney
A Koh
T Lobene
J Durcan

Internal audit
P Stanley
S Whitworth
B Grosvenor
P Johnston
E Medlar

Tax
R Azoulay
T O Neuman
K Farewell

Investor relations
C Sweetland
F Butera

Corporate communications
F McEwan
V Edwards
K McCormack

Company secretarial and legal
M Capes
D F Calow
A J Harris
M Povey
F Bahrampour

Investment bankers
Goldman Sachs International Ltd
Peterborough Court
133 Fleet Street
London
EC4A 2BB

HSBC
8 Canada Square
London
E14 5HQ

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Morgan Stanley & Co Limited
25 Cabot Square
Canary Wharf
London
E14 4QA

Citigroup
Citigroup Centre
33 Canada Square
Canary Wharf
London
E14 5LB

Legal advisors
Allen & Overy
One New Change
London
EC4M 9QQ

Davis & Gilbert LLP
1740 Broadway
New York
NY 10019

Fried Frank
1 New York Plaza
New York
NY 10004

Hammonds
7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

Stockbrokers
Merrill Lynch International Corporate Broking
2 King Edward Street
London
EC1A 1HQ

Panmure Gordon & Co. plc
50 Stratton Street
London
W1J 8LL

Auditors and accountancy advisors
Deloitte & Touche LLP
Hill House
1 Little New Street
London
EC4A 3TR

KPMG LLP
1 Puddle Dock
London
EC4V 3DS

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Remuneration consultants
Towers Perrin
71 High Holborn
London
WC1V 6TP

Deloitte & Touche LLP
Hill House
1 Little New Street
London
EC4A 3TR

Property advisors
Fulcrum Corporate
The Pumphouse
13-16 Jacob's Well Mews
London
W1U 3DY

James Andrew International
72/75 Marylebone High Street
London
W1M 3AR

Jones Lang LaSalle
22 Hanover Square
London
W1A 2BN

Cushman & Wakefield Inc
51 West 52nd Street
New York
NY 10019-6178

How we behave

Directors' report

This year the Directors' report includes reviews from the chairmen of three Board committees; Philip Lader as chairman of the Company and its Nomination committee; Paul Spencer, as chairman of the Audit committee, and Bud Morten, chairman of the Compensation committee. It also contains an analysis of the Company's compliance with statutory and regulatory requirements.

Philip Lader – chairman of the Company and chairman of the Nomination committee

Dear share owner

Amidst the trans-Atlantic proliferation of corporate governance initiatives, WPP has sought to continue to demonstrate the leadership and accountability that have warranted the confidence of our share owners, clients, employees, suppliers and local communities.

Our goal is always to comply fully with all relevant laws and regulations, including the Combined Code and the US Sarbanes-Oxley Act of 2002, and, as far as may be prudent, with guidelines and standards promulgated by Hermes, the Association of British Insurers (ABI), the National Association of Pension Funds (NAPF), Pensions Investment Research Consultants (PIRC), NASDAQ, and other corporate governance advocates. Because such guidelines and standards continue to evolve and are sometimes contradictory, they are occasionally considered by the Board not to be necessarily in the best interests of our share owners and full and immediate compliance is not always possible. Be assured that the Board carefully reviews all such guidelines as to both cost and benefit to share owners and we shall not compromise the essence of these standards.

Throughout the year ended 31 December 2004, WPP has been in compliance with the provisions of the Combined Code set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, except that between 1 October 2004 and 29 April 2005 the membership of the Audit committee consisted of only two independent non-executive directors. This has now been remedied with the appointment of Jeffrey Rosen to the committee.

For Board membership we have also continued to seek individuals whose expertise and perspectives are commensurate with the Company's responsibilities, opportunities and challenges.

To that end, in 2004 Ms Orit Gadiesh, chair of the eminent global strategic consulting firm Bain & Company, and Paul Spencer, a highly experienced former finance director of multinational companies, joined us as non-executive directors, and Paul is now chairman of the Audit committee. This year, we are pleased to welcome as additional non-executive directors, Mrs Lubna Olayan, chair of a major holding company with diversified interests around the world, and Jeffrey Rosen, deputy chairman of Lazard, who brings his extensive international financial experience to the Audit committee. In addition, Mark Read, who has played an instrumental role in the Company's strategic planning and global new-business assignments, has been appointed as an executive director.

Long-term directors Jeremy Bullmore and John Jackson retired from the Board in September 2004. My colleagues

and I are deeply indebted to them for their major contributions over many years, and the Company will continue to benefit from their experience and judgement as founding members of our new Advisory Board. We are also grateful for the Board service of Michael Jordan, who retired from the Board last year to accommodate his growing responsibilities as the chief executive officer of EDS.

The Nomination committee finds it beneficial, at this stage, to be comprised of both executive and non-executive members, though certain US regulatory guidelines provide otherwise. This past year, the members of the Nomination committee, including Bud Morten, Christopher Mackenzie, Beth Axelrod, Sir Martin Sorrell and I, met formally on three occasions and periodically on an '*ad hoc*' basis. These meetings resulted in detailed consideration of the Board's composition and effectiveness (including new appointments), expansion of the pool of director candidates, succession planning (for the Board, its committees and senior executives in both the parent and operating companies), and formal evaluation of the effectiveness of the Board and its committees.

The performance evaluation by the Board consisted of each director's response to a detailed questionnaire, individual discussions by each director with me on this subject, and a meeting of non-executive directors to evaluate the chairman's performance. Assisted by the Senior independent director, Bud Morten, I reported to the full Board on this assessment, and as a result, certain changes to the Board processes were implemented to improve its effectiveness.

On one corporate governance matter – the definition of "independence" for directors – the Board takes issue with some guidelines which assume that individuals who have served for more than nine years should no longer be viewed as independent. We firmly believe that corporations need directors of character and integrity, but their independence should not be measured in terms of Board tenure. This particularly far-flung and complicated family of businesses benefits significantly from the in-depth understanding that comes to non-executive directors principally from longer-term service.

WPP has benefited enormously, for example, from the contributions of Bud Morten, a non-executive director for 13 years, who continues to demonstrate the independence, personal qualities, professional standards, and institutional knowledge that serve our share owners' best interests. This is why Bud has continued as chairman of the Compensation committee and, though he may step down from that role this year, we hope he will agree to continue as the Company's Senior independent director.

The Board also believes that "independence" should not, by definition, be denied a non-executive chairman with no other ties to the company. Accordingly, my status has been determined to be that of an independent director, thereby complying with the provision of Section 1 of the Combined Code.

During 2004, the non-executive directors met once without any executive directors or officers of the Company being present and once without my presence. The executive directors met once with senior executives of the Group's operating companies to review WPP's strategies. Observations from all these meetings were discussed in detail with the full Board, and recommendations were unanimously approved.

Serving on WPP's Board is a privilege – one that is increasingly demanding, given new regulatory and governance requirements and the comprehensive range of communications services performed by the Group's 84,000 people in 106 countries for some of the world's most successful, and most demanding, clients. Let me, therefore, express my appreciation to my colleagues who continue to serve our Company so well.

Philip Lader
10 May 2005

Paul Spencer – chairman of the Audit committee

Dear share owner

I was appointed chairman of the Audit committee in October 2004 succeeding John Jackson who had held the post for a number of years and to whom I am very grateful. My colleagues on the committee are Bud Morten and more recently Jeffrey Rosen who joined the committee on 29 April 2005. Michael Jordan retired from the committee in June 2004.

Meetings of the committee, of which there were six during 2004, were also attended, in whole or in part, by the auditors, the chairman of the Company, the Group finance director, the director of Internal Audit, the Company Secretary and a representative of the legal department.

This year the work of the committee included:

- monitoring the integrity of the Company's financial statements and reviewing significant financial reporting judgements;
- reviewing and reporting on the key elements of risk management as they affect the Group's global operations;
- reviewing internal financial control and internal audit activities;
- the review and appointment of the external auditors and approval of their remuneration and terms of engagement;
- monitoring the external auditors' independence, objectivity and effectiveness, taking into account relevant global professional and regulatory requirements;
- the approval and monitoring of the policy for the engagement of the external auditors in relation to the supply of permissible non-audit services (including taxation and executive compensation services), taking into account relevant ethical and regulatory requirements;
- monitoring accounting and legal reporting requirements, including all relevant regulations of the UK Listing Authority, the Securities Exchange Commission, and NASDAQ with which the Company must comply;
- in conjunction with Howard Paster, the director responsible for corporate responsibility (CR), ensuring systems are in place to monitor social, environmental and ethical issues which may affect the Group (other than issues which fall within the remit of the Compensation committee); and
- establishing procedures for the receipt and treatment of concerns regarding accounting, audit and internal audit matters, including confidential and anonymous submissions by employees of concerns relating to those issues.

During the year, particular attention has been given to the impact of new accounting standards, ensuring compliance with the Combined Code, monitoring progress towards full compliance with the Sarbanes-Oxley Act (particularly section 404 of that Act) and ensuring that the Company complies with the NASDAQ rules, such as Rule 4350(d)(2), to the extent that they apply to the Company.

The next two years promise to be interesting but demanding with so many changes to accounting standards and regulatory requirements. In addition to John Jackson, I am indebted to Bud Morten, Philip Lader, Paul Richardson and a number of senior executives in the parent company for the assistance they have given me to enable me to take on and settle into my role as chairman of the committee.

Paul Spencer
10 May 2005

Bud Morten – chairman of the Compensation committee

Dear share owner

Throughout 2004, remuneration of directors and senior executives of global companies has again had continuous attention (not always of a critical nature) in the press, and from institutions and their representatives bodies. WPP has received its share of this attention.

WPP has welcomed and supported the growth of share owner involvement as we believe that thoughtful dialogue on important governance and policy issues is constructive for all concerned. WPP has an excellent record of responsiveness to best practice, and has been one of the foremost companies in terms of disclosing information that facilitates open dialogue.

As a committee, we believe that the best long-term interests of share owners must take precedence over strict and immediate compliance with every new corporate governance guideline or standard.

We accept our responsibility to explain clearly and fully our policies, and to speak out in opposition to rules and standards when we believe that the costs associated with them exceed the benefits they provide to our share owners. The mission of the committee is to provide fully competitive economic opportunities that allow WPP to attract, develop, retain and motivate the excellent people upon whom our success depends, and includes the potential for such people to receive superior rewards for exceptional performance.

First and foremost, the committee recognizes that compensation is 'mission critical' to the success of any communication services business. Accordingly, WPP seeks to structure its compensation in a manner that confers a competitive advantage that is fully integrated with its efforts to manage and develop its people and their talents. In most cases, the labour markets define what compensation is 'fully competitive' for our people, just as they do for everyone from David Beckham to an unskilled labourer. WPP competes for talent in global markets, and in particular against some very large and resourceful US companies. Because of the nature of our services and products, we also compete for talent with our clients, our potential clients and suppliers (e.g. media companies), which range from the very large to start-ups offering the potentially exceptional rewards of being a successful entrepreneur.

As a truly global company, we must contend with the major differences around the world in compensation levels and incentive arrangements, and in such standard practices as the length of contracts, severance terms and the imposition of performance conditions on incentive awards.

The period since the issue of the accounts for 2003 has seen a significant rationalisation of Sir Martin Sorrell's incentive arrangements. The Notional Share Award Plan, the Capital Investment Plan and Original LEAP all vested in September 2004, although Sir Martin has further deferred 2,649,208 shares under the Capital Investment Plan until late 2008. In March this year JMS Financial Services Limited (JMS) exercised all of its remaining Additional Fee Rights (phantom options) and all of its rights currently exercisable under the Performance Share Plan. With effect from 1 April 2005 Sir Martin became a direct employee of the Company in respect of the services that he provides to the Company outside the US. He therefore no longer provides his services through JMS. As of 1 September 2005 Sir Martin's contractual arrangements both within and outside the US will be on an 'at will' basis.

During 2004, the committee held six formal meetings and also held a number of ad hoc and more informal discussions. Committee meetings are frequently attended, in whole or in part, by the Group chief executive, the chief talent officer, the director of Compensation and Benefits, the Company Secretary and the Group General Counsel.

My colleagues on the committee are Philip Lader and Christopher Mackenzie and we are all considered by the Board for this purpose to be independent.

During the year, the committee received advice from senior executives and also from those external advisers referred to in the Report of the Compensation committee on page 103, which also reviews the work carried out by the Compensation committee during the year.

As a result of the introduction of regulatory provisions governing the use of non-audit services from the auditors, the committee decided that it was impracticable to continue to use the Executive Compensation Consulting Practice of Deloitte and Touche LLP as the sole advisor to the committee. It therefore carried out a full review of its requirements in this regard and, as a result, Towers Perrin were appointed in 2004 to act as joint advisors with Deloitte & Touche LLP.

In closing I would like to express my personal appreciation to Beth Axelrod who left us in March this year to join eBay in California. Beth brought to the committee great clarity of thought as well as a detailed understanding of the Group's talent requirements and exceptional strategic insight. The committee wishes her well in her new life on the West Coast.

Bud Morten
10 May 2005

The Board of Directors

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's policy and strategy and is responsible to share owners for the Group's financial and operational performance. Responsibility for the development and implementation of Group policy and strategy and for day-to-day management issues is delegated by the Board to the Group chief executive and other executive directors.

For the year under review, Philip Lader continued as chairman of the Board, responsible for the leadership of the Board. Sir Martin Sorrell, as the Group chief executive, continued to be responsible for the development and implementation of policy and strategy and for the day-to-day operations of the Group. The biographies of the current Board members appear on pages 85 to 86.

All directors are fully briefed on important developments in the various business activities which the Group carries out worldwide and regularly receive extensive information concerning the Group's operations, finances, risk factors and its people, enabling them to fulfil their duties and obligations as directors. The directors are also frequently advised on regulatory and best practice requirements which affect the Group's businesses on a global basis, but particularly in the US and the UK.

During 2004, the Board met eight times formally and held a number of ad hoc meetings throughout the year. With the exception of Michael Jordan, Orit Gadiesh and Christopher Mackenzie each absent for one meeting, there was full attendance at all formal meetings of the Board during 2004.

Following the Annual General Meeting, the Board will consist of 15 directors of whom four are executive and 10 plus the chairman who are non-executive. As explained in the chairman's review, the Board considers that eight of the 10 non-executive directors, in addition to the chairman, are independent. A further non-executive director will be appointed shortly.

The shareholdings of non-executive directors are set out on page 112 and details of their fees on page 111. Non-executive directors do not participate in the Company's pension plans, share option or other incentive plans, but may receive a part of their fees in ordinary shares of the Company.

The Board considers that the non-executive directors' remuneration conforms with the requirements of the Combined Code.

The fees payable to non-executive directors represent compensation in connection with Board and Board committee meetings, and where appropriate for devoting additional time and expertise for the benefit of the Group in a wider capacity.

Details of directors' remuneration and service contracts form part of the report of the Compensation committee which commences on page 103.

The following directors offer themselves for election and re-election at the forthcoming Annual General Meeting:

- Appointed since the last Annual General Meeting – Lubna Olayan, Jeffrey Rosen and Mark Read.
- Retiring by rotation – Sir Martin Sorrell.
- Directors for more than nine years – Bud Morten (14 years) and John Quelch (17 years).

All directors are required to submit themselves for re-election by share owners at least every three years.

In line with best practice under the Combined Code, directors who have held office for more than nine years now submit themselves for re-election by share owners every year.

The Board recommends that share owners vote in favour of the Resolutions to elect and re-elect these directors and set out their reasons for this recommendation in the Appendix to the Notice of the Annual General Meeting.

Committee meetings

The attendance of non-executive directors at meetings of the committees of the Board during 2004 was as follows:

	Nomination committee	Audit committee	Compensation committee
Philip Lader	3	4	6
Bud Morten	3	6	6
Christopher Mackenzie	2	n/a	5
John Jackson[1]	n/a	4	n/a
Paul Spencer[2]	n/a	5	n/a

Notes
[1] Retired 30 September 2004
[2] Appointed May 2004

During 2004, the committee for Corporate Responsibility, which is chaired by Howard Paster and also comprises executives of the parent company met three times on a formal basis. Their report for 2004 commences on page 97.

The Disclosure committee is comprised of senior executives in the parent company, namely Group financial reporting, internal audit, legal, tax, human resource and investor relations departments. The purpose of the Disclosure committee is to add further assurance to the content of all public statements (including the annual report and accounts) and, during 2004, it met six times.

Share owner relations

Relations with share owners, potential share owners and investment analysts are given the highest priority by the Company.

The Company has a well-developed continuous program to address the needs of share owners, investment institutions and analysts for a regular flow of information about the Company, its strategy, performance and competitive position. Given the wide geographic distribution of the Company's current and potential share owners, this program includes regular visits to investors, particularly by the Group chief executive and the Group finance director, in the UK, Continental Europe and the major financial centres in North America together with a more limited program in Asia Pacific. The Company also provides a quarterly trading update at the end of the first and third quarters and at the Annual General Meeting currently held in June each year in addition to semi-annual reporting required in the UK.

During 2004, Bud Morten in his capacity as chairman of the Compensation committee met with a number of share owners and their representative bodies to discuss the introduction of Renewed LEAP and Philip Lader has also met with some of the principal share owners during the year.

The Company maintains a website (www.wppinvestor.com) providing investors with a regular source of information.

Internal control

WPP operates a system of internal control, which is maintained and reviewed in accordance with the Combined Code and the guidance in the Turnbull Report as well as Rules 13a-14 and 15 of the Securities Exchange Act 1934 as they currently apply to the Company. In the opinion of the Board, the Company has complied throughout the year with the Turnbull Report and has also complied with the relevant provisions of the Securities Exchange Act 1934.

The Board (which receives advice from the Audit committee) has overall responsibility for the system of internal control and risk management in the Group and has reviewed the effectiveness of the system during the year. In the context of the scope and complexity of this system, the Board can only give reasonable, but not absolute, assurance against material misstatement or loss.

The principal elements of internal control are described below.

Control environment

The quality and competence of our people, their integrity, ethics and behaviour are all vital to the maintenance of the Group's system of internal control.

The Code of Business Conduct (which is regularly reviewed by the Audit committee and the Board) sets out the principal obligations of all employees. Directors and senior executives throughout the Group are required each year to certify their compliance with this Code. The WPP Policy Book (which is regularly updated) includes the Code and human resource practices as well as guidance on required practices in many operational areas. Breaches or alleged breaches of the Code are investigated urgently by the director of Internal Audit and the Group General Counsel.

Furthermore, the Group has an independently operated helpline, 'Right to Speak', for the reporting of issues that employees feel unable to raise locally. A number of issues have been raised during 2004 through this helpline, all of which have been investigated.

Risk assessment

Risk monitoring of all of the Group's operations throughout the world is given the highest priority by the Group chief executive, the chairman of the Audit committee and the Board, as it is essential to the creation and protection of share owner value and the development of the careers of our people. The Board realises that WPP is a service company and its ongoing prosperity depends on being able to continue to provide a quality service to its existing and potential clients in a creative, efficient and economic way.

At each Board meeting, the Group chief executive presents a 'Brand Check' review of each of the business' operations, incorporating a risk monitor, providing feedback on the business risks and details of any change in the risk profile since the last Board meeting.

The 'Brand Check' covers such issues as:

- changes in political security;
- the possibility of the loss of major business (e.g., a change of senior management of a major client);
- introduction of new legislation in an important market;
- loss of a key executive of the Group;
- change in accounting or corporate governance practice.

Each operating group undertakes monthly and quarterly procedures and day-to-day management activities to review their operations and business risks. These are formally communicated to the Group chief executive and other executive directors and senior executives in quarterly review meetings and, in turn, to the Board.

The Board is firmly of the opinion that the monitoring of risk has always been and continues to be strongly embedded in the culture of the Company and of the operating companies, in a manner which the Board considers goes beyond the Turnbull recommendations and the requirements of Rules 13a-14 and 15 of the Securities Exchange Act 1934.

Control activities and monitoring

Policies and procedures for all operating companies are set out and communicated in the WPP Policy Book, internal control bulletins and accounting guidelines. The application of these policies and procedures is monitored within the individual businesses and by the Company's director of Internal Audit and the Group General Counsel.

Operating companies are required to maintain and update documentation of their internal controls and processes, which was originally prepared in a detailed Group standard format in prior years. This documentation incorporates an analysis of business risks (thus continuing the benefits of the regional and selected operating company workshops conducted in the previous year) detailed control activities and monitoring, together with controls over security of data and the provision of timely and reliable information to management.

The internal audit department carried out verification and testing of the documentation and the relevant controls for a majority of Group companies during 2004, the results of which were reported to the Audit committee.

Financial reporting

Each operating company annually updates a three-year strategic plan which incorporates financial objectives. These are reviewed by the parent company's management and are agreed with the chief executive of the relevant operating company.

The Group operates a rigorous procedure for the development of operating company budgets which build up the Group's budget. During the final quarter of each financial year, operating companies prepare detailed budgets for the following year for review by the parent company. The Group's budget is reviewed by the Board before being adopted formally. Operating company results are reported monthly and are reviewed locally, regionally and globally by the business groups and by Group management on a consolidated basis and ultimately by the Board. The results are compared to budget and the previous year, with full-year

forecasts prepared and updated quarterly throughout the year. The Company reports to share owners four times a year.

At each year-end, all operating companies supply their full-year financial results with such additional information as is appropriate. This information is consolidated to allow the Group to present the necessary disclosures for UK and US GAAP reporting and International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS).

The Disclosure committee gives further assurance that publicly-released information, including this Annual Report, is free from material omission or misstatement.

Adoption of IFRS

From 1 January 2005, the Group is required to prepare its consolidated financial statements in accordance with IFRS including IAS. The Group's first IFRS results will be its interim results for the six months ended 30 June 2005.

The impact that the adoption of IFRS would have had on the Group's 2004 results, balance sheet and cash flows was published in the Company's trading statement on 22 April 2005 and is reproduced on pages 162 to 168. This unaudited information was prepared substantially on the basis of all IAS, IFRS and related interpretations, published by the International Accounting Standards Board (IASB) and in issue at that date.

Sarbanes-Oxley S404

Effective for the 2006 year-end, the Group and its auditors will be required to report separately to the share owners on the design and effectiveness of internal controls over financial reporting, in accordance with section 404 of the Sarbanes-Oxley Act.

The Group has planned its response to the necessary testing procedures and is committed to achieving compliance given the rigour of the controls, processes and documentation described above.

Going concern

UK company law requires the directors to consider whether it is appropriate to adopt the financial statements on the basis that the Company and the Group are going concerns. As part of its normal business practice, the Group prepares annual and longer-term plans and in reviewing this information and in particular the 2005 three-year plan and budget the directors believe that the Company and the Group have adequate resources for the foreseeable future. Therefore the Company and the Group continue to adopt the going concern basis in preparing the financial statements.

Responsibilities in respect of the preparation of financial statements

UK company law also requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at all times the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and consequently for taking all possible steps for the prevention and detection of fraud and other irregularities.

The following information, together with the statements regarding directors' responsibilities and statement of going concern set out on pages 93 and 95 and the directors' remuneration and interests in the share capital of the Company set out on pages 111 to 115, constitute the Directors' report.

Substantial share ownership

As at 10 May 2005, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

Legg Mason	4.14%
WPP ESOPs*	3.99%
Legal & General	3.33%
Barclays	3.01%

*The trustees of the ESOPs are entirely independent. It is the Company's intention that the total number of shares held in the ESOPs at any one time is such as may be required to satisfy outstanding incentive plan share awards (but allowing for a contingency element e.g. to deal with hirings in the course of a year). The number of shares held in the ESOPs as at 31 December 2004 is 51,657,256.

The disclosed interests of all of the above refer to the respective combined holdings of those entities and to interests associated with them.

The Company has not been notified of any other holdings of ordinary share capital of 3% or more.

Re-election of directors

Details of the directors who, whether under the Articles of Association of the Company or otherwise, are to retire and who offer themselves for re-election are set out on page 93 and also in the Notice of Annual General Meeting. All directors are required to submit themselves for re-election by share owners at least every three years.

Profits and dividends

The profit on ordinary activities before tax for the year was £456.5 million (2003: £349.9 million). The directors recommend a final ordinary dividend of 5.28p (2003: 4.40p) per share to be paid on 4 July 2005 to share owners on the register at 3 June 2005 which, together with the interim ordinary dividend of 2.5p (2003: 2.08p) per share paid on 15 November 2004, makes a total of 7.78p for the year (2003: 6.48p). The retained profit for the year of £200.3 million (2003: £131.6 million) is transferred to reserves.

Parent company charitable donations

The Company made charitable donations of £202,000 (2003: £120,000). It is the Company's policy not to make payments for political purposes. In total WPP companies together with the parent company contributed an estimated £14.1 million worth of time, skills, materials and money to social and community causes in 2004. More detailed information regarding the Group's support of charities is set out in the section dealing with corporate responsibility on pages 97 to 101.

Group activities

The principal activity of the Group continues to be the provision of communications services worldwide. The Company acts only as a parent company and does not trade.

Details of significant events after the balance sheet date are given in note 29 on page 151.

Fixed assets

The consolidated balance sheet includes a conservative estimate of the value of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 13, 14 and 15 on pages 141 to 143.

Share capital

Details of share capital movements are given in note 24 on pages 146 to 148.

Authority for purchase of own shares

At the Annual General Meeting in 2004 share owners passed a special resolution authorising the Company, in accordance with its Articles of Association, to purchase up to 118,002,676 of its own shares in the market. In the year under review, 13.4 million shares were purchased at an average price of £5.50 per share.

Supplier payment policy

The Company has no trade creditors because it is a parent company and, accordingly, no disclosure can be made of the year-end creditor days. However, the Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The average trade creditors for the Group, expressed as a number of days, were 53 (2003: 50).

Auditors

The directors will propose a resolution at the Annual General Meeting to re-appoint Deloitte & Touche LLP as auditors.

By Order of the Board

M W Capes
Company Secretary
10 May 2005

Corporate responsibility

Business impact

WPP regards corporate responsibility as significant to the future success of its business.

Our clients are multinational and leading national companies for whom corporate responsibility is becoming a business norm. The health of brands is increasingly associated with the reputation of the parent company towards the environment and society. Ethically-conscious consumers are exercising their discretion by choosing brands from companies with good track records. Investors are asking about a company's corporate responsibility practices in order to gauge how risks are being managed.

Leading companies seek suppliers who can partner with them to achieve high standards of corporate responsibility and help them receive recognition for their work. This has already impacted WPP when competing for new business. We think the trend will increase since the underlying causes of public concern such as global warming and poverty in the developing world are becoming more acute.

In 2004, WPP published a second Corporate Responsibility Report which documents our approach, performance and goals. The Report provides our clients and prospective clients with evidence about how we are implementing our stated values. When engaging with clients on corporate responsibility we can now provide facts and data. Our third Report will be published in September 2005.

Our significant issues

We consult widely and use our judgement to identify the most important corporate responsibility issues for WPP. This includes regular dialogue with clients and investors. During 2004 we also participated in a formal stakeholder survey undertaken by consultants for the UK Media Sector Forum.

WPP's three most significant corporate responsibility issues are:

- **The impact of our work** including marketing ethics, compliance with marketing standards, protection of consumer privacy, social and cause-related marketing.
- **Employment** including diversity and equal opportunities, business ethics, employee development, remuneration, communication, and health and safety.
- **Social investment** including pro bono work, donations to charity and employee volunteering.

The Board considers that these issues represent opportunities for WPP to enhance its reputation with existing and future clients and our people and to strengthen its business. In the event of poor performance or serious and high-profile failures, the first two of these could also present a potential reputational risk to the business.

How we behave

Corporate responsibility

Of less significance, but still part of our corporate responsibility programme, are our environmental impact and our suppliers' corporate responsibility performance.

How we manage corporate responsibility risk and opportunity

Howard Paster is the Board director responsible for assessing corporate responsibility risks. He chairs WPP's corporate responsibility committee, established in 2003, which advises on policy, monitors emerging issues and co-ordinates communication among Group companies. The committee is made up of senior representatives from WPP's major business categories. It identifies and assesses significant corporate responsibility risks and opportunities for the business and believes it has adequate information to make this assessment. The Group's operating companies have each nominated a corporate responsibility representative responsible for compiling and reporting data to the parent company and co-ordinating activity within operating companies.

Howard provides an annual assessment of corporate responsibility risks and performance to the Audit committee and the Compensation committee.

During 2004, the Company's internal audit function included corporate responsibility risks in its reviews of Group companies. The audit function is also responsible for collating our annual corporate responsibility survey of operating companies and validating the data.

WPP's corporate responsibility Policy and Code of Business Conduct provide guidance for our people on a wide range of ethical, social and environmental subjects. Both documents are publicly available on our website *www.wpp.com*.

We have established an initial set of key performance indicators (KPIs) in our corporate responsibility reports. These cover some but not all of our significant issues. The corporate responsibility committee is continuing to investigate the most appropriate KPIs in the remaining areas.

In 2004, we set ourselves four ongoing corporate responsibility goals. These were:

- **Contribution to society –** Undertake pro bono work and make donations to charity to a value of 0.4% of revenue.
- **Employee volunteering –** Achieve an average rate of employee volunteering equivalent to one day per person each year.
- **Marketing ethics –** Comply with all laws and industry codes governing marketing material (and to track our performance globally to establish how we are doing).
- **Environment –** Calculate climate impact, purchase recycled paper and install recycling facilities in 10 of our largest offices.

While we have not yet achieved these goals, we continue to work towards their realisation. In order to do better, we are looking at what can be done to bring us closer to our objectives in a manner that best serves the interests of our share owners. Each of our goals requires co-ordinated effort across five continents. This is made more complicated by WPP's management structure that devolves a great deal of management responsibility and discretion to our operating companies.

In 2004, the value of our contribution to society (cash contributions and pro bono work) totalled £14.1 million. This represents approximately 0.33% of revenue.

Many of our US businesses run volunteering programs. These programs are less common in the rest of the world – and where volunteering does take place, data on time spent is not usually captured. We therefore cannot confirm that this goal has been achieved but we are improving the systems in this area.

While we have systems for capturing compliance with marketing codes in many countries, we will continue to strive to achieve full reporting on this issue and to approach our goal of full compliance.

We are close to achieving our environmental goals though the purchasing of recycled paper is not yet common practice in our major offices.

The impact of our work

Marketing ethics

The work our operating companies produce is part of our corporate responsibility performance. They are expected to comply with all laws, regulations and codes of marketing practice. Our Code of Business Conduct states that we will not knowingly create work which contains statements, suggestions or images offensive to general public decency and will give appropriate consideration to the impact of our work on minority segments of the population, whether that minority be by race, religion, national origin, colour, sex, sexual orientation, age or disability.

Many professionals from within WPP companies play an important part in developing and revising industry codes in sensitive areas such as advertising to children and the marketing of food and pharmaceutical products. For example, Julie Halpin, CEO of the Geppetto Group, is a board member of the Childrens' Advertising Review Unit in the US.

The vast majority of the thousands of marketing campaigns we produce are published without complaint. Occasionally complaints do occur relating to matters of taste or fact. In most countries these are arbitrated by government or industry organisations. Our global statistics are incomplete but we have identified only 50 infringements of marketing codes in 17 countries from the tens of thousands of advertisements prepared by Group companies.

Privacy

Our market research and direct marketing agencies use consumer data to study lifestyles, purchasing habits and target direct marketing campaigns. Privacy is therefore an important issue. Our operating companies comply with national data protection laws and marketing codes of practice such as the UK Data Protection Act and the EU Data Protection Directive.

Social marketing

Our operating companies undertake work for clients where the objective is to advance a social cause. This can have a positive impact for example by providing health information or by engaging the public in an environmental objective like energy saving.

An example from 2004 is PSM's public relations work for a UK government anti-bullying campaign. The campaign targeted young people using sports and music celebrities. During the campaign more than 50 celebrities were recruited to wear a 'beat bullying' blue wristband.

Cause-related marketing

Cause-related marketing links brands to charities, usually through a donation for every product purchased. Executed sensitively, these campaigns benefit both brand and charity. Many WPP companies work on cause-related marketing.

WPP as an employer

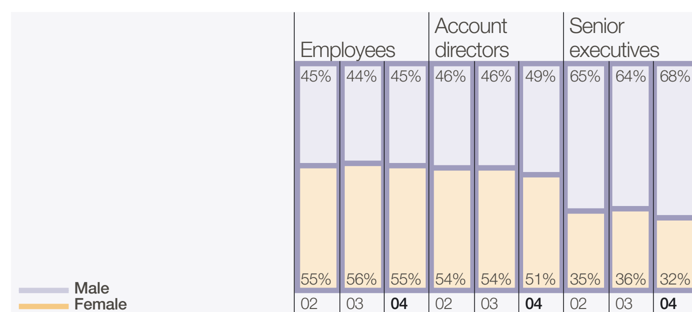
Diversity

Our goal is to have a talent base that reflects the communities in which we operate. We believe diversity contributes to creativity, new ideas and a richer workplace.

Our non-discrimination policy, introduced in 1992, commits us to select, develop and promote the best people without regard to factors such as race, religion, national origin, colour, sex, sexual orientation, age or disability. The Group's Code of Business Conduct contains policies on human resource issues, such as harassment and discrimination. Our people can report any concerns or suspected cases of discrimination or misconduct confidentially (and anonymously if desired) through our Right to Speak helpline.

In 2004, women accounted for 32% of executive directors of operating companies, 51% of account directors and 55% of total employees. There are three women on WPP's Board.

Gender diversity 2002-2004



WPP's US-based advertising agencies are part of Operation Success, a new initiative launched by the American Association of Advertising Agencies (AAAA) to increase diversity in the US advertising industry. We also sponsor events such as the annual Harvard Business School African-American Alumni Association conference 2004. The conference is a networking opportunity, informing minority professionals about new career opportunities, and increasing visibility for WPP as a preferred employer among this audience.

Several WPP companies, including JWT, MindShare, Ogilvy & Mather, OgilvyOne and Y&R participate in the AAAA's Multicultural Advertising Internship Program. This enables students from a range of ethnic backgrounds to gain work experience in the advertising industry.

Other diversity initiatives at our agencies include:

- JWT supports the American Advertising Federation's (AAF) Mosaic Awards; the AAF's Most Promising Minority Student Award and INROADS (an internship programme for minority youth) and partners with the Ad Women of New York to help female professionals find positions and succeed in advertising.
- Ogilvy New York has two full-time recruiters dedicated to minority recruitment, and works with specialised diversity recruiting firms to bring minority executives into the agency.
- Y&R sponsors conferences and recruitment fairs including the Advertising Women of New York Conference, the job fair of the National Society of Hispanic MBAs, the Asian American Diversity Career Expo and the US Department of Labor's Job Fair for Hispanics.

During 2005, we will review the diversity programmes in WPP operating companies as part of our annual talent review process.

Development and training

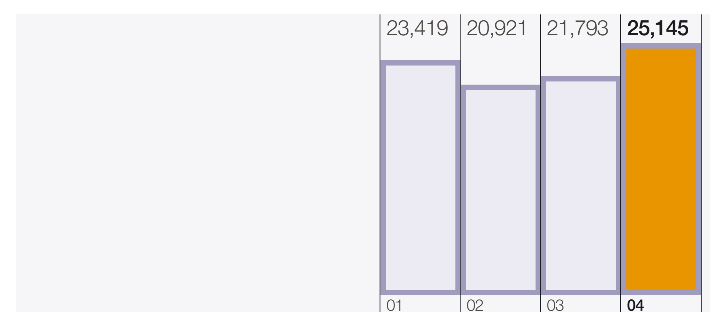
People achieve more when they are supported and motivated to develop their careers and acquire new skills. Our approach includes performance assessment, succession planning and training.

Our goal is for our people to receive regular performance appraisals. CEOs from our operating companies lead annual development-focused reviews of their executive talent with the key objectives of cultivating the exceptional capabilities of our leaders whilst assuring responsible succession planning. Coaching, mentoring, and deliberate job moves are essential by-products of these talent reviews. We launched a 360° feedback development tool for CEOs from our major operating companies during 2004.

In 2004, WPP invested £25.1 million in training and well-being across the group. We have introduced courses aimed at developing creative leadership, client leadership and personal leadership. This year we extended our client leadership course to all our largest companies.

Staff training and welfare

£000



The parent company runs the SparkLab program of innovative behavioural workshops and master classes. Devised, developed and tailored by WPP for its own people, SparkLabs aim to refresh daily working habits and improve everyday communication and presentation skills. These workshops are led by professionals from the performing arts.

Our operating companies also run a range of training courses covering all aspects of agency business and creative skills. For example, Hill & Knowlton's Virtual Academy

offers 18 online training courses covering core business skills. JWT and O&M provide a range of structured training options for their people to support their career development. Courses cover entry-level business and marketing skills through to cutting-edge research and leadership development.

Employee ownership

Share ownership gives our people a financial stake in the Company and a share in its success. WPP's Worldwide Ownership Plan, introduced in 1997, has granted share options to over 49,000 of our people. Details of this plan and other executive stock options can be found on page 107.

People working in the Group including directors own or have interests in around 113 million shares, 8.9% of the issued share capital.

Communication

We keep our people informed and up to date with what is happening across the Group. With 84,000 people in 106 countries this can be a challenge, so we place great emphasis on good internal communications. Some examples are:

- Distribution of the Annual Report, the *Navigator* company handbook, the *Atticus Journal*, *The Wire* (WPP's global newspaper), and regular *FactFiles* to all companies worldwide.
- A monthly online news bulletin – *e.wire*.
- Regular communication on Group initiatives such as the Worldwide Partnership Program, *BRANDZ*, the Atticus Awards, the WPP Marketing Fellowship Program and professional development workshops.
- Periodic reports from Sir Martin Sorrell to participants in LEAP, and to the Leaders, Partners and High Potential groups.
- WPP's website, Group intranet site and professional Knowledge Communities.
- Formal and informal meetings at operating company level.

Our annual corporate responsibility Report is widely distributed across WPP and is available on our intranet and website.

Health and well-being

The main health and safety risks for our business are associated with posture at desks and work-related stress. We aim to identify and reduce these risks and provide a safe workplace. By reducing stress we can minimise absence from work and improve productivity and employee retention.

Our agencies seek to create an environment where people feel able to discuss any issues, including stress, with their manager or human resources department. Managers are responsible for identifying stress-related issues on an individual basis, through informal interaction with employees as well as during annual appraisals. Our companies also assess the risk of work-related stress through regular staff surveys and by monitoring issues raised via our Right to Speak helplines, Employee Assistance Programs and during exit interviews.

Initiatives to combat workplace stress vary by company but include:

- Employee Assistance Programs – a source of confidential advice, support and counselling.
- Flexible benefit programs, including subsidised childcare.
- Flexible work arrangements enabling people to work part-time or from home.
- Medical checks and health screening.
- Training on stress and time management.

Employee external appointments

The Company recognises that its directors and senior executives may be invited to become non-executive directors of other companies and that such exposure may be beneficial to the Group. Consequently, executives are allowed to accept non-executive appointments with non-competing companies subject to obtaining the approval of the Group chief executive in the case of senior executives and the approval of the Nomination committee in the case of executive directors. Any fees receivable out of such appointments are retained by the individuals concerned.

Social investment

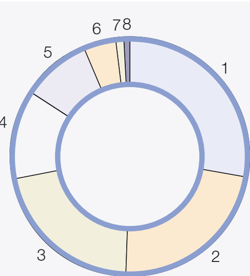
WPP companies create advertising, marketing and research work for charities at no or minimal cost. This pro bono work helps charities publicise their campaigns, raise money and recruit new members, and provides a creative challenge for our people. We also donate money and equipment to support a range of good causes around the world.

In 2004, our total social investment was worth £14.1 million, equivalent to 0.33% of revenue (3.1% of pre tax profits). This includes £11.4 million in pro bono work (based on the fees the benefiting organisations would have paid for our work) and £2.7 million in donations. WPP came sixth in the UK *Guardian* newspaper's Giving List 2004 (based on 2003 data) that ranks FTSE 100 companies by the value of their social investment.

WPP's social investment reduced in 2004 primarily due to a smaller amount of pro bono work being undertaken. During this period of high commercial activity the time and resources that our people were able to donate to pro bono work reduced, meaning that the value donated did not keep pace with revenue.

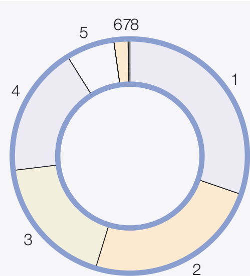
Pro bono work by category

	Category	%
1	Health	28.0%
2	Local community	22.6%
3	Other	21.5%
4	Education	12.1%
5	Arts	9.6%
6	Environment	4.3%
7	Illegal drugs	1.2%
8	Alcohol abuse	0.7%



Donations by category

	Category	%
1	Health	30.4%
2	Local community	24.3%
3	Education	18.5%
4	Other	17.9%
5	Arts	6.7%
6	Environment	1.9%
7	Alcohol abuse	0.2%
8	Illegal drugs	0.1%



Many WPP companies gave money and undertook pro bono work to support communities affected by the Asian tsunami. For example:

- Asia Pacific – XM, our internet solutions company, worked with Yahoo! Asia to drive traffic to the Red Cross website.
- UK – MindShare worked with its pro bono client, the Disasters Emergency Committee, to gain support and free airtime from the media industry.
- US – Hill & Knowlton's Washington office offered free public relations advice to the Center for International Disaster Information.

WPP the parent company

The Company focuses its support on education and the arts. Some initiatives supported include:

- UK – Charles Edward Brooke Girls' School, which specialises in media arts, sponsoring work placements and other pro bono assignments.
- UK – Royal College of Art annual illustration competition and support of Hardship Fund.
- UK – provision of two bursary awards for D&AD, the professional association for design and advertising.
- UK – the Company is a corporate patron of the National Portrait Gallery and Natural History Museum in London.
- UK – the London Business School.
- US – Harvard Business School.

Sir Martin Sorrell is an active participant in programs at the following international business schools: London Business School; the Judge Institute for Management Studies, UK; IESE, Spain; Indian Business School; Harvard Business School and Boston University.

Employee volunteering

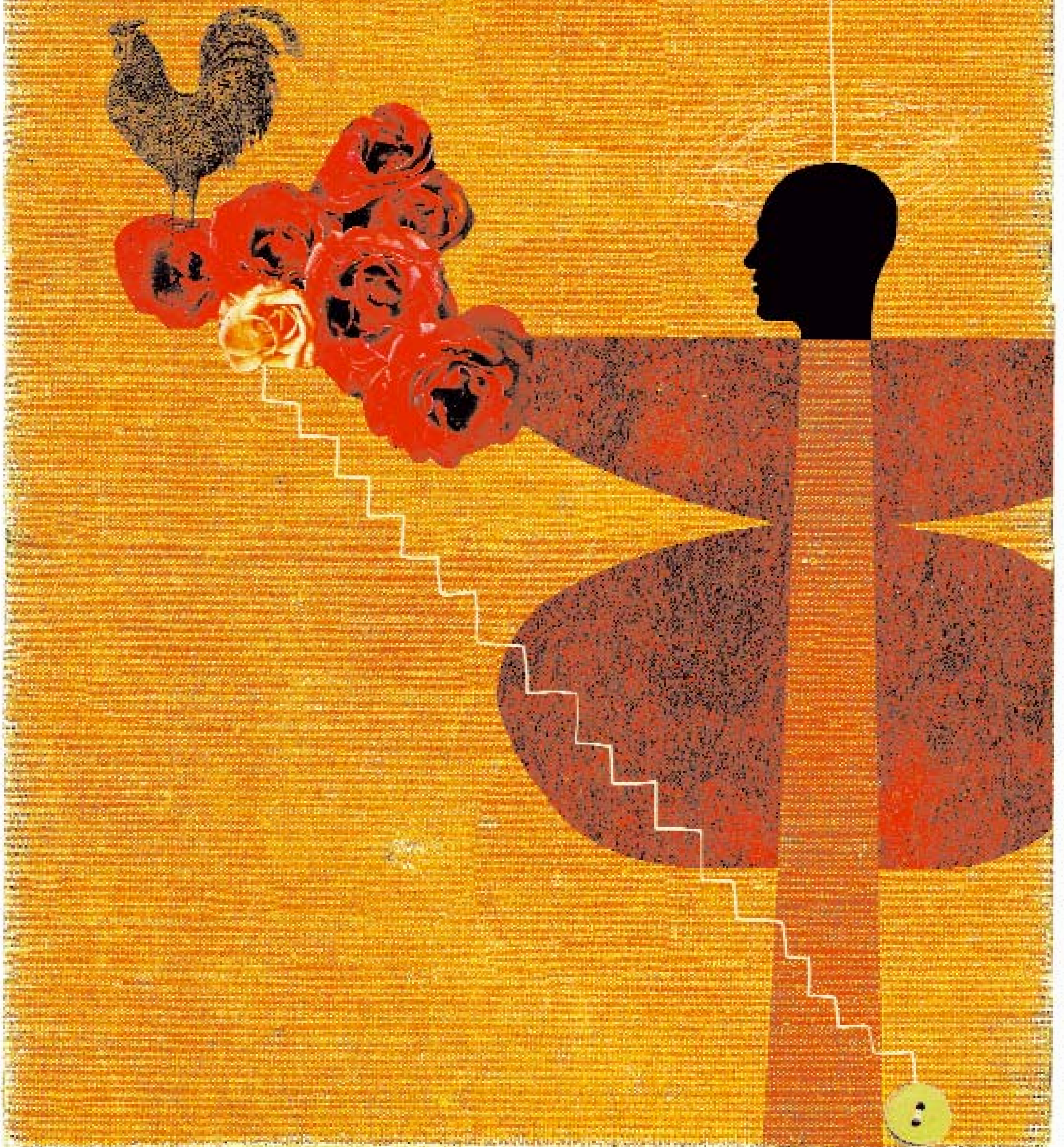
Many of our people give their time and expertise as volunteers to support good causes in their local community. We encourage this because it benefits the charity and our people. Our data collection system is not sufficiently reliable to enable us to confirm that we achieved the goal of one day per person per year.

Environment and supply chain

We take environmental issues seriously. Our corporate responsibility policy commits us to minimising our environmental impacts. These are energy use, transport, and consumption of paper and other resources. We are also committed to managing any significant corporate responsibility risks in our supply chain.

We have prioritised three environmental issues – energy consumption, paper use and recycling – and are working on these with 10 of our biggest offices. We are also introducing ethical and environmental considerations into procurement decisions. As a first step we have added ethical and environmental criteria to WPP's Procurement Policy and developed a supplier corporate responsibility questionnaire. More information is available in our Corporate Responsibility Report.

How we're rewarded



Compensation committee report on behalf of the Board

Introduction

This report is made by the Board, prepared on its behalf and for its approval by the Compensation committee.

It provides the Company's statement of how it has applied the principles of good governance set out in the Combined Code and those required by Schedule 7A to the Companies Act and the Directors' Remuneration Report Regulations 2002 (the 'Regulations') in respect of Compensation matters. As in previous years, additional information on executive remuneration, based on a US-proxy style disclosure, is also included at the end of this report.

The report of the auditors on the financial statements set out on page 169 confirms that the scope of their report covers, where required, the disclosures contained in or referred to in this report that are specified for their audit by the UK Listing Authority and under the Companies Act. Details of each individual director's remuneration and of their beneficial holdings of the Company's shares and share options are set out on pages 111 to 117.

Share owner approval

The Company has, for many years, obtained the approval of its share owners for its remuneration policy, which is set out below. Legislation requires companies to put the Compensation committee report to the vote at their Annual General Meetings and the appropriate resolution is set out as resolution 13 in the Notice of Annual General Meeting.

Remit of the Compensation committee

During the year, the Compensation committee comprised the following who took decisions in respect of the year:

- S W Morten (chairman of the committee);
- P Lader;
- C Mackenzie.

No current member of the committee has any personal financial interest (other than as a share owner) in the matters to be decided by the committee, potential conflicts of interest arising from cross-directorships or day-to-day involvement in running the Group's businesses. The terms of reference for the Compensation committee are available on the Company's website and will be on display as set out in the Notice of Annual General Meeting.

The Compensation committee regularly consults with Group executives, particularly the Group chief executive, the chief talent officer, the Director of compensation and benefits and the Group General Counsel. During the year, the committee appointed Towers Perrin as joint external advisors with Deloitte & Touche LLP and received material assistance from these firms. Deloitte are also engaged as the external auditors to the Company. As such, the appointment as joint remuneration advisors is also subject to, and has received, pre-approval by the Audit committee. Information on other services provided by Deloitte is given in note 2 to the financial statements on page 138. All services performed by Deloitte are carried out in accordance with the requirements of the UK Auditing Practices Boards' Ethical Standard 5, relating to non-audit services performed by a company's auditors, the US PCAOB's and the SEC's requirements. Significant advice was also received from Hammonds solicitors on a number of legal and governance issues which arose during the course of the year. Advice on the remuneration of the chairman and the non-executive directors was provided by the same advisors to the Board and not to the committee.

Advice is received by the committee on a wide range of relevant issues including:

- analysis of competitive compensation practices and determination of competitive positioning;
- base salary levels;
- annual and long-term incentive plans and awards;
- policy relating to WPP share ownership;
- pensions and executive benefits;
- service contract terms for executives;
- changes in accounting, taxation, legal and regulatory practices;
- governance issues relating to compensation and the role of the committee; and
- issues relating to employee harassment and discrimination.

Issues addressed by the Compensation committee

This year the work of the committee included:

- reviewing and approving the remuneration of executive directors and senior executives of the Company and of directors and senior executives of the operating companies;
- devising and implementing long-term incentive programmes including the Renewed Leadership Equity Acquisition Plan;
- reviewing terms of employment (including termination arrangements) of executive directors and senior executives of the Company and of directors and senior executives of the operating companies;
- reviewing systems implemented throughout the Group to deal with matters such as employee harassment and discrimination, including systems for the confidential and anonymous submissions by employees relating to those issues;
- appointing and reviewing the performance of external advisors to the committee and to the Company in relation to executive remuneration and human resource activities; and
- monitoring the vesting of the awards made under the Original Leadership Equity Acquisition Plan and the vesting of awards under a number of incentive plans applicable to the Group chief executive and also reviewing his contractual arrangements.

In determining the remuneration, stock incentive arrangements and benefits for all of the current executive directors the Board accepted the proposals and recommendations of the Compensation committee without change.

How we're rewarded

Compensation committee report on behalf of the Board

Policy on remuneration of executive directors and senior executives

The following policy applies for the financial year 2005 and, subject to continuing review, for future years. The remuneration of executive directors and senior executives of the Group's operating companies and the parent company is reviewed each year by the committee.

The policy is designed to ensure that the Group is in a position to employ the best talent available at all levels on a global basis so that it can meet client and share owner objectives. In particular, the committee has regard to the levels of compensation in the Group and specific businesses with which the Group companies compete and is also sensitive to compensation levels in the wider business community.

With this in mind the committee places importance on remuneration practices in the global communications services sector, particularly in the US and the UK, and also pays close attention to the structure of remuneration, and the proportion of remuneration that is performance-related, on both a short-term and long-term basis.

Principles of remuneration

To implement the Company's policy, executive remuneration is designed to be consistent with the following principles:

- total remuneration opportunities are designed to be fully competitive in the relevant market;
- all remuneration packages have a significant performance-related and variable element;
- incentives are based on meeting specific, measurable and challenging performance objectives;
- the performance objectives which are set for incentives are designed to align executive rewards with the creation of value for our share owners (see TSR explanation below); and
- the total remuneration program includes significant opportunities to acquire WPP stock, consistent with building a strong ownership culture.

The Company believes that a significant proportion of remuneration for executive directors and senior executives should be delivered through performance-related elements, such as the annual bonus awards and share-based longer-term incentive awards. For target performance the committee would generally expect at least 60% of an executive director's remuneration to be performance-related. The Company has, for several years, had a policy for senior executives to achieve stock ownership goals, as a result of which awards may vary depending on whether individuals achieve and maintain specific levels of ownership of WPP stock.

Principles governing long-term incentives

Long-term incentives, including stock awards, currently comprise a significant element of total remuneration for senior executives in the parent company and each operating company. During 2004, approximately 1,700 of those executives participated in some form of performance-related long-term incentive program.

The committee retains the discretion to approve recommendations for ad hoc share-based awards to individuals (other than for executive directors), e.g. when hiring or for retention purposes.

Any long-term incentive program in which an executive director is entitled to participate is subject to demanding performance conditions.

The committee reviews the operation of the Group's long-term incentive programs each year in detail to ensure that the performance measures and levels of reward continue to be appropriate and competitive. In response to changes in accounting standards (under both international and US GAAP) and evolving market practice such as the American Jobs Creation Act, a review of incentive arrangements is currently being carried out.

The results of this review will be included in the next annual report and accounts.

Aligning share owner interests – total shareholder return (TSR)

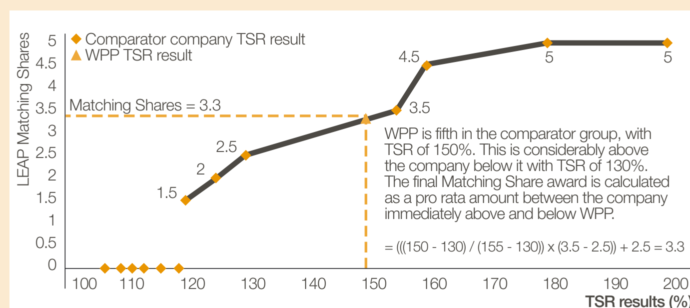
WPP's share-based long-term incentive plans for executive directors, namely the Performance Share Plan (PSP) and the Leadership Equity Acquisition Plan (LEAP) currently solely use TSR as the basis for performance measurement, subject always to the fairness review as described on page 108. TSR represents the change in share price, together with the value of reinvested dividends, over the performance period.

The Compensation committee continues to believe that TSR relative to a group of key comparators is the most appropriate measure for determining performance-based rewards for Group executive directors, as it most closely aligns reward with the delivery of share owner value.

Under Renewed LEAP the committee has further improved the operation of a TSR-based performance measure through the introduction of 'Pro-Rata TSR'. This works to improve the operation of a rank-based TSR vesting schedule by recognising and rewarding the outperformance of close comparators, as shown below.

In the illustrative example below, WPP is fifth in the comparator group with a TSR of 150%, but it has outperformed the company in sixth position by a considerable distance. The final Matching Share award is calculated as a pro rata amount between the TSR amounts of the comparator company immediately above and below WPP.

Example of Pro Rata TSR vesting



For all incentive plans, TSR is calculated using external data sources, such as DataStream or Bloomberg and using an appropriate and recognised methodology.

IFRS transition

From 1 January 2005, the Company will be required to account under International Financial Reporting Standards (IFRS). It is commonly acknowledged that this may lead to greater volatility in earnings. The committee is aware that these changes may affect the evaluation of performance under those WPP long-term incentive plans which use earnings-based performance measures, such as EPS or operating profit. The committee, in consultation with the Audit committee, has resolved to take these matters into account when evaluating performance under the relevant long-term incentive plans.

Principles governing WPP share-based awards and dilution, funding and cost

WPP is committed to aligning management and share owner interests by encouraging a culture of employee share ownership through equity-based incentive arrangements.

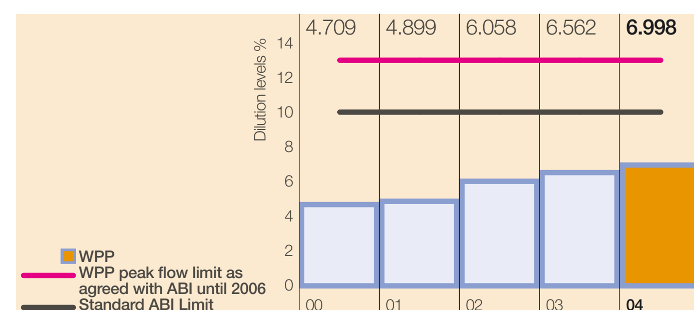
At the same time, we recognise the need to strike a balance between achieving this objective and ensuring that share owner value is not unduly diminished through the issue of new shares to satisfy awards. The dilution as at 10 May 2005 was well below the 10% level recommended by the ABI.

With regard to Renewed LEAP, as with Original LEAP (both of which are described in detail on pages 108 and 109), it is the intention of the committee to satisfy awards with shares held in the employee share ownership plans ('ESOPs'), acquired by market purchase.

From 1 January 2005, IFRS 2 will require the fair value of employee share options and share awards to be expensed over the vesting period, marking a significant change from previous practice in this area. The committee is fully aware of these developments and will ensure that the new requirement to expense will be considered during the review of remuneration structures which is currently taking place.

Details of the expensing of share based incentives under IFRS 2 are given on page 163.

WPP Share Incentive Scheme dilution
for 2000 to 2004



Policy on directors' service contracts, notice periods and termination payments

The Compensation committee annually considers the Company's policy on the duration of directors' service contracts, the length of notice periods in executive directors' service contracts and payments on termination of such contracts. The committee set itself the objective to reduce notice periods for executive directors to not more than 12 months and this has now been achieved.

None of the contracts of parent company executive directors contain liquidated damages provisions, other than in the case of Sir Martin Sorrell. Sir Martin's liquidated damages provisions expire on 31 August 2005 and will not be renewed.

There were no payments in 2004 in respect of termination of employment of executive directors.

The notice periods for directors are as follows:

Executive director	Contract/effective date	Unexpired term/Notice period
Sir Martin Sorrell	1 April 2005	31 August 2005 thereafter "at will"
Howard Paster	1 January 2002	31 December 2005 thereafter 6 months
Paul Richardson	1 January 2005	12 months
Mark Read	9 September 2002	6 months

Non-executive director*	Contract date
Philip Lader	26 February 2001
Esther Dyson	29 June 1999
Orit Gadiesh	28 April 2004
David Komansky	28 January 2003
Bud Morten	2 December 1991
Lubna Olayan	18 March 2005
John Quelch	10 July 1991
Koichiro Naganuma	23 January 2004
Christopher Mackenzie	14 March 2000
Jeffrey Rosen	20 December 2004
Paul Spencer	28 April 2004

*The notice period applicable to all non-executive directors is two months.

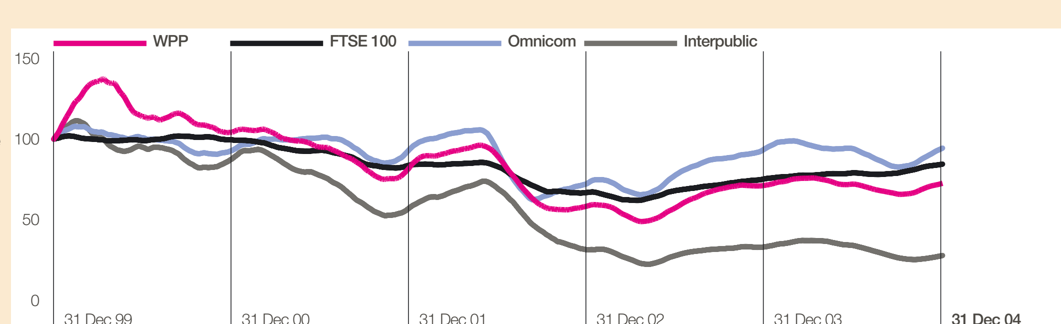
Since 1 April 2005, Sir Martin Sorrell has been employed directly by the Company in relation to the services he provides to the Group outside the US having previously been engaged through JMS Financial Services Limited. He continues to be employed by WPP Group USA, Inc. in respect of his US services.

Five-year performance graph

As required by UK company law and for share owners' information, the Company's TSR for the five years to 31 December 2004 is shown on this graph. The FTSE 100 is the Index the Board considers most relevant for the purpose of comparison and IPG and Omnicom are shown as these are the companies with whose performance that of the Company is most commonly compared.

Source: Datastream

WPP total return to share owners relative to relevant comparators
rebased to 31 December 1999



How we're rewarded

Compensation committee report on behalf of the Board

Elements of remuneration

As indicated in the table below, the principal elements of executive remuneration currently comprise the following:
- Base Salaries (fixed);
- Annual Incentives (variable); and
- Long-term incentives (variable).

Pensions, life assurance, health and disability, and other benefits are also provided.

In light of changing market practice and tax and accounting environments, a full review of the current remuneration structures is currently being carried out.

	Key elements of short - and long-term remuneration			
	Objective	Participation	Performance period	Performance conditions
Annual				
Base salary*	Maintain package competitiveness at all levels within the Group.	All employees.	N/A	Not applicable. But salary levels are determined taking a number of relevant factors into account, including individual and business unit performance, level of experience, scope of responsibility and the competitiveness of total remuneration.
Annual performance bonus**	Incentivise delivery of value at all levels within the Group. An opportunity to defer into shares provides further alignment with share owner interests.	Approximately 10% of employees are eligible to receive a performance bonus.	1 year	Achievement of challenging performance goals (financial and non-financial) at the individual and operating company level and independent of an executive's position within the Group.
Long-Term				
WWOP	Develop a stronger ownership culture.	Employees of 100%-owned Group companies with 2 years' experience. Not offered to those participating in other option programs or to executive directors.	3 years	None.
Executive Stock Option Plan**	To provide long-term retention and to encourage a share ownership culture.	WPP Group Leaders, Partners, and High Potential Group. Currently not offered to parent company executive directors.	3 years	Achievement of various TSR and EPS conditions.
Operating Company LTIPs**	To reward financial growth in operating companies over a multi-year period.	Key Operating Company executives.	3 years	Achievement of specific operating company performance measures, such as: ■ improvement in operating profit; and ■ improvement in operating margin.
PSP**	To incentivise long-term performance against key comparators.	Parent company executives and executive directors.	3 years	Relative TSR performance against a group of key communication services comparator companies, subject to the recorded TSR, in the committee's view, being consistent with the achievement of underlying financial performance.
Renewed LEAP	Incentivises long-term performance against key comparators and maximises alignment with share owner interests through a high level of personal financial commitment.	Participation offered only to those who transcend their day-to-day role, including executive directors.	5 years	Relative TSR performance against a group of key communication services comparator companies, subject to a fairness review by the Compensation committee.

* Base salary is the only pensionable element of remuneration.

**As indicated elsewhere in this report, these components of WPP's remuneration structure are currently under review.

Base salary

The base salary is determined by reference to the market median for similar positions in directly comparable companies. In the case of the parent company, this includes other global communication services companies such as IPG and Omnicom. For JWT, Ogilvy & Mather Worldwide and Y&R, the competitive market includes other major multinational advertising agencies. For each of the other operating companies in the Group, a comparable definition of business competitors is used to establish competitive median salaries. Individual salary levels are targeted at a range of 15% above or below the competitive median, taking a number of relevant factors into account, including individual and business unit performance, level of experience, scope of responsibility and the competitiveness of total remuneration.

Salary levels for executives are reviewed at least every 18 or 24 months, depending on the level of base salary. Executive salary adjustments are made by the committee following consultation where appropriate with the Group chief executive, the chief talent officer and the chief executive officer of the appropriate operating company.

Annual performance bonus

The annual performance bonus is paid under plans established for each operating company and for executives of the parent company. Challenging performance goals are established and these must be achieved before any bonus becomes payable.

In the case of the Group chief executive and other parent company directors and executives, the total amount of annual performance bonus payable is based on Group and individual performance.

In the case of operating companies, individual awards are paid on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria relating to the participant's own operating company, division, client or functional responsibility, and as agreed by the committee including:

- operating profit;
- profit margin;
- staff costs to revenue or gross margin; and
- conducting talent reviews, succession planning and other key strategic goals established annually.

Those eligible to receive an annual performance bonus may, subject to satisfying specific conditions, elect to defer their bonus for four years, converting it into an award of shares under the provisions of the Company's Deferred Bonus Plan. The value of this share award at grant is equal to 125% of the bonus that would otherwise have been received earlier had it been taken in cash.

Each executive's annual incentive opportunity is defined at a 'target' level for the full achievement of objectives. Higher awards may be paid for outstanding performance in excess of target.

The target level for Group executive directors, (other than the Group chief executive), is currently no more than 50% of base salary and the maximum is currently 75%. Executive directors' bonuses are determined principally by the achievement of financial performance goals by the Company and agreed strategic objectives. A process comparable to that described below for the Group chief executive is now in place for the remaining executive directors.

The target level for the Group chief executive is 100% of base fee/salary and the maximum is 200%. For 2004 Sir Martin's bonus was determined by reference to three separate equal components. First, financial performance of the Company measured against budgeted operating profit before interest and taxes and budgeted cash flow. Secondly, the Company's performance relative to a peer group of major public advertising companies taking into account total shareholder return, increase in operating profit, increase in earnings per share and increase in operating margins. Thirdly, the achievement of key strategic objectives, which for 2004 included amongst others, strengthening the geographic positioning of Group companies in both developed and fast-growing markets, ensuring orderly and effective succession of leadership for key operating company and parent company roles and developing collaboration amongst leaders of the various businesses and encouraging cross-selling amongst Group companies, including client co-ordination initiatives.

Executive Stock Option Plan and Worldwide Ownership Plan

The Executive Stock Option Plan has been used annually since its adoption in 1996 to grant options to members of the WPP Group Leaders, Partners and the High Potential Group as well as key employees of the parent company, but currently excluding parent company executive directors and the Group chief executive. Howard Paster and Mark Read currently hold share options, but none of these were granted in respect of their services as executive directors of the Company.

The Committee is currently considering alternatives (e.g. awards of restricted stock) to grants under the Executive Stock Option Plan, which will be more in line with current global practice and is also reviewing the level of grants to seek comparability with principal competitors such as Omnicom. It is anticipated that restricted stock awards using purchased shares in one of the Company's ESOPs rather than option grants will be made in respect of 2005.

In 1997 the Company broadened stock option participation by introducing the Worldwide Ownership Plan for employees (other than those participating in other option programs) of 100%-owned Group companies with at least two years' service, in order to develop a stronger ownership culture. Since its adoption, grants have been made annually under this plan and as at 10 May 2005 options under this plan had been granted to over 49,000 employees for approximately 23.6 million ordinary shares of the Company. Further details of employee share ownership are set out in the section on corporate responsibility on page 100.

Operating companies: Long-term incentive plans

Currently senior executives of most Group operating companies participate in their respective company's long-term incentive plans, which historically have provided awards in cash and restricted WPP stock based on the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in the following performance measures:

- average operating profit or profit before tax; and
- average operating margin.

How we're rewarded

Compensation committee report on behalf of the Board

With effect from 2003 operating companies' long-term incentive plans provide for awards to be satisfied wholly in WPP stock to be paid in the March following the end of the three-year financial performance period, with no subsequent restriction on sale.

The future composition of these plans forms part of the review referred to above.

Parent company: Performance Share Plan (PSP)

Annual grants of WPP performance shares are made to all executive directors (see the table on page 114) and to senior executives of the parent company. Vesting is dependent on the TSR performance relative to the comparator group. At median performance, 33% of the performance shares vest, with higher percentages vesting for superior performance up to 100% if WPP ranks at least equal to the second ranking peer company. Contingent grants of performance shares will be no more than 100% of base salary. The current peer companies are detailed in the table below.

Over the 2002-2004 performance period, WPP was below the median of the peer group companies, and consequently this award lapsed in full.

Awards were made in April 2004 in respect of the performance periods 2003-2005 and 2004-2006. The criteria for future awards, including the award in respect of the performance period 2005-2007, is currently under review.

Comparator group table

The following communications services companies currently make up the comparator group for PSP and Renewed LEAP. The composition of the comparator group is frequently reviewed by the Compensation committee and such a review is currently being undertaken.

Omnicom	Aegis
IPG	Taylor Nelson Sofres
Publicis	Dentsu
Havas	Arbitron
Digitas	Gfk
Ipsos	VNU

Renewed Leadership Equity Acquisition Plan ('Renewed LEAP')

At an Extraordinary General Meeting of the Company held on 16 April 2004, the Company obtained the approval of share owners for a renewal of Original LEAP, an innovative long-term incentive plan introduced in 1999. As with Original LEAP the purpose of Renewed LEAP is to:

- reward superior performance relative to WPP's peer companies;
- align the interests of executive directors and key executives with those of share owners through significant personal investment and ownership of stock; and
- ensure competitive total rewards.

Awards are made on an annual basis, taking into account prevailing market and competitive conditions. Awards can be made in a variety of forms with the same economic effect, but allowing the Company flexibility to adapt to changing economic, financial, accounting and taxation environments.

Under Renewed LEAP, participants have to commit WPP shares ('investment shares') in order to have the opportunity to earn additional WPP shares ('matching shares'). For each participant's first LEAP award, at least one-third of these investment shares must be purchased in the market. The investment shares have to be committed for a fixed period ('investment and performance period'). The number of matching shares which a participant can receive at the end of the investment and performance period depends on the performance (based on the TSR) of the Company measured over five financial years (four years in the case of the awards made in 2004). It is expected that all matching shares to which participants become entitled will be provided from one of the Company's ESOPs.

The Compensation committee acknowledges that TSR may not always reflect the true performance of the Company and therefore may perform a 'fairness review' (the fairness review) to vary the number of matching shares that will vest if, during an investment and performance period, it determines that there have been exceptional circumstances; factors that the Committee will consider in its fairness review of any awards will include, but are not limited to, various measures of the Group's financial performance, such as growth in revenues and in earnings per share.

The maximum possible number of matching shares is five (four in the case of awards made in 2004) for every investment share for which the Company would need to rank first or second within a group of comparator companies over the investment and performance period. The comparator companies for the award to be made in 2005 are currently being reviewed.

Under Renewed LEAP, in order to equalise the economic effect that different forms of award may take, participants (other than those who have not received a previous award under LEAP) may be entitled to receive a dividend fund equal to the value of the dividend on the shares that eventually vest. This is used to calculate a number of additional shares receivable at the end of the investment and performance period.

If the Company's performance is below the median of the comparator group then, for participants who have not received a previous award under LEAP, half a matching share will vest for every investment share held through the investment and performance period, in recognition of a participant's maintenance of their personal investment throughout the period.

On a change of control, matching shares can be received based on the Company's performance to that date. Under the fairness review, the Compensation committee can also consider, in the light of exceptional financial circumstances during the performance period, whether the recorded TSR is consistent with the achievement of commensurate underlying performance.

Renewed LEAP adopted many of the principles of Original LEAP (e.g. co-investment) but a number of changes in design were made to improve the effectiveness as a remuneration tool, to conform with current best practice, and to increase alignment with share owners' interests.

These changes include:

- phasing awards, so that proportionate investment opportunities are offered on a regular basis (currently envisaged to operate as an annual cycle). Phasing of awards will have a number of benefits: it will ease entry to the plan for new joiners, it will avoid situations where particularly large payments are delivered in any one year, and it will be more sensitive to performance relative to the comparator group as a result of a greater number of start and end points for measurement purposes;
- the first awards were made on 28 October 2004 in respect of the investment and performance period commencing on 1 January 2004. In order to smooth the transition from Original LEAP to Renewed LEAP, the 2004 awards are subject to a four-year investment and performance period, with a corresponding reduction in the maximum matching share award to four matching shares. Subsequent awards will be for a five-year period with a maximum five times match;
- replacing the 'stepped vesting schedule' of Original LEAP, with a measure more sensitive to relative total shareholder return (TSR) performance – Pro-rata TSR;
- removing the guaranteed half-share match for participants who were also in Original LEAP;
- simplifying the forms that awards can take; and
- maintaining the comparable economic effect of different forms of award by providing a dividend fund (as described above), based on the number of shares that actually vest. New participants receiving the half share match will not receive a dividend fund payment.

Under Renewed LEAP, Sir Martin Sorrell committed investment shares having a value of $10 million, namely 1,032,416 shares, for the award made for 2004. For future years and at the discretion of the Compensation committee he may be invited to commit up to a maximum amount of $2 million in respect of each of the annual awards that may be made in 2005 or thereafter.

Original Leadership Equity Acquisition Plan ('Original LEAP')

As noted above, Original LEAP was an incentive plan introduced in 1999. The performance period of Original LEAP for most participants expired on 31 December 2003 with the Company achieving sixth position in the comparator group of 15 companies. This resulted in an award of three matching shares for every investment share committed to the plan (60% of the maximum), subject to certain continuing conditions until September 2004.

The matching shares to which participants in Original LEAP (other than JMS) became entitled for the awards made by reference to 1999 were provided from one of the Company's ESOPs as will those for the remaining awards in Original LEAP. The ESOPs acquired the maximum potential number of matching shares in respect of the original awards at an average cost of £3.70 per share. Authority was obtained from share owners to satisfy the entitlement of JMS to matching shares by an allotment of new shares. No further awards will be made under Original LEAP.

Retirement benefits

The form and level of Company-sponsored retirement programs varies depending on historical practices and local market considerations. The level of retirement benefits is regularly considered when reviewing total executive remuneration levels.

In the two markets where the Group employs the largest number of people, the US and the UK, pension provision generally takes the form of defined contribution plans, although the Group still maintains various defined benefit plans and arrangements primarily in the US and UK. In each case, these pension plans are provided for the benefit of employees in specific operating companies and, in the case of the UK defined benefit plans, are closed to new entrants. All pension coverage for the Company's executive directors is currently on a defined contribution basis and only base salary is pensionable under any Company retirement plan. Details of pension contributions for the period under review in respect of executive directors are set out on page 111. During 2005, the committee will be reviewing the Group's policy on retirement benefits, in the light of legislative changes in the US and the UK.

Competitive positioning of remuneration

On a regular basis the Compensation committee carefully considers, against the most recent market data available, the market positioning of all executives for whose remuneration it is responsible.

For example, for the Group chief executive three separate benchmarks for remuneration opportunities are used:

- the most senior executive position in the Company's two closest comparators, Omnicom and Interpublic Group;
- the CEO position in companies of comparable size and complexity in the UK FTSE 350 index; and
- the CEO position in public companies of comparable size and complexity in the US.

In making its assessments, the committee takes into account the overall value of the opportunities that packages represent, including salary, benefits (such as post-retirement entitlements), short-term and long-term incentives and share ownership requirements. It focuses, in particular, on the 'on-target' level of remuneration. The committee also takes into account the proportions of total compensation that are fixed and those which are variable because they are subject to various conditions, including performance and, in the case of share-based incentives, future share price performance.

The same approach is taken for other senior executives. The Compensation committee considers data from the latest industry surveys for the senior positions in WPP's operating companies. WPP participates in the leading global surveys of executive remuneration in the advertising, market research, healthcare, public relations and public affairs sectors. In addition, for heads of operating companies the committee also considers public disclosures for similar positions in listed companies of comparable size and complexity in the relevant sector.

How we're rewarded

Compensation committee report on behalf of the Board

Group chief executive – Sir Martin Sorrell

Sir Martin Sorrell's services to the Group outside the US have previously been provided under an agreement with JMS, although with effect from 1 April 2005 this was replaced by an executive service contract entered into directly between Sir Martin and the Company. He is also directly employed by WPP Group USA, Inc. for his activities in the US. Taken together, the current agreement in relation to his services to the Group outside the US ('the UK Agreement') and to his services to the Group in the US ('the US Agreement') provide for the following remuneration, including incentive awards, all of which is disclosed on pages 111 to 117:

- annual salary and fees of £840,000;
- annual pension contributions of £321,000;
- short-term incentive (annual bonus) of 100% of annual salary at target and up to 200% at maximum;
- the Performance Share Plan; and
- the Leadership Equity Acquisition Plan as renewed.

Contract provisions relating to Sir Martin Sorrell

Term/Notice periods

The notice provisions in Sir Martin Sorrell's contracts currently provide for a fixed term which is due to expire on 31 August 2005. Thereafter the contracts will continue on an "at will" basis.

Damages for loss of office and change of control

Sir Martin's Sorrell's current contracts (which expire on 31 August 2005) may be terminated by Sir Martin upon a change of control. With effect from 1 September 2005, Sir Martin's contracts will not contain a change of control provision.

Earned awards exercised by Sir Martin Sorrell since 1 January 2004

Since the publication of the Accounts for 2003 a number of incentive plans in which Sir Martin Sorrell and/or JMS participated have vested or have been exercised following deferral over a number of years. Details of these are as follows:

Plan	Year(s) of grant	Date of vesting/ exercise	No. of shares/ phantom shares
Capital Investment Plan[1]	1994	01.09.04	1,054,442
Notional Share Award Plan	1994	01.09.04	1,754,520
Original LEAP[2]	1999	22.09.04	3,221,442
Phantom Options[3]	1993, 1994	23.03.05	2,148,581
Performance Share Plan[4]	1999, 2000, 2001	16.03.05	313,796

Notes

[1] In addition, 987,742 shares vested but have not yet been exercised and a further 2,649,208 shares were deferred until 1 October 2008.

[2] The number of shares under Original LEAP includes those attributable to JMS.

[3] JMS exercised the Phantom Options on 23 March 2005 and used the proceeds to subscribe for 1,907,468 shares.

[4] Sir Martin Sorrell/JMS remain interested in the right to 11,076 shares under the Performance Share Plan award made on 28 February 2001.

Directors' remuneration – information subject to audit

The compensation of all executive directors is determined by the Compensation committee which is comprised wholly of non-executive directors whom the Company considers to be independent (see pages 90 and 92). The Compensation committee is advised by independent remuneration consultants as well as by Group executives referred to in the Report of the Compensation committee (prepared by the committee on behalf of the Board) on page 103. The information in this section (pages 111 to 115) forms the part of the Report of the Compensation committee that is subject to audit.

The compensation of the chairman and other non-executive directors is determined by the Board, which is similarly advised.

The components of executive directors' remuneration and the principles on which these are established are described in the Report of the Compensation committee on pages 106 to 110.

Remuneration of the directors who were directors during the year ended 31 December 2004 is set out in the table below.

All amounts shown constitute the total amounts which the respective director received during 2004 and for the annual bonus in respect of 2004 but received in 2005. No compensation payments have been made during 2004 to any individuals who were previously directors of the Company.

				Short-term incentive plans	Total annual remuneration		Pension contributions	
Chairman	Location	Salary and fees £000	Other benefits[1] £000	(annual bonus)[2] £000	2004 Total £000	2003 Total £000	2004 Total £000	2003 Total £000
P Lader[3]	USA	213	–	–	213	200	–	–
Executive directors								
M S Sorrell[3, 4]	UK	840	25	1,554	2,419	2,125	321	329
E L Axelrod[3, 6]	USA	336	13	266	615	600	22	24
H Paster[3]	USA	382	11	191	584	657	8	9
P W G Richardson[3, 5]	USA	437	97	280	814	825	90	73
Non-executive directors								
J J D Bullmore[6, 7]	UK	61	9	–	70	87	–	–
E Dyson[3]	USA	50	–	–	50	25	–	–
O Gadiesh[3, 6]	USA	33	–	–	33	–	–	–
J B H Jackson[6]	UK	45	–	–	45	30	–	–
M H Jordan[3, 6]	USA	26	–	–	26	25	–	–
D Komansky[3]	USA	50	–	–	50	25	–	–
C Mackenzie	UK	56	–	–	56	25	–	–
S W Morten[3]	USA	66	–	–	66	30	–	–
K Naganuma[6]	Japan	–	–	–	–	–	–	–
J A Quelch[3, 7]	USA	76	38	–	114	90	–	–
P Spencer[6]	UK	37	–	–	37	–	–	–
Total remuneration		**2,708**	**193**	**2,291**	**5,192**	**4,744**	**441**	**435**

Notes

[1] Other benefits comprise healthcare, life assurance and allowances for cars, housing and club memberships. During the year, Paul Richardson also received a tax equalisation payment in the gross amount of £227k from WPP Group USA, Inc. Sir Martin Sorrell also received a gross payment of £262k from WPP Group USA, Inc. to reimburse fees in respect of professional services upon which the Company also relied and arising as a result of various group transactions.

[2] Amounts paid in 2005 in respect of bonus entitlements for 2004.

[3] All amounts payable in US dollars have been converted into pounds sterling at $1.8326 to £1. The amounts paid to Sir Martin Sorrell and Paul Richardson were paid part in US dollars and part in pounds sterling.

[4] The amount of salary and fees comprise the aggregate of fees paid under the UK Agreement with JMS and the salary paid under the US Agreement referred to on page 110.

[5] Neither Paul Richardson nor the Company received any payment from Chime Communications PLC or STW Communications Group Limited in respect of his non-executive directorships in those companies.

[6] Michael Jordan retired from the Board in June 2004, Jeremy Bullmore and John Jackson retired from the Board in September 2004, Paul Spencer and Orit Gadiesh were appointed to the Board in April 2004. K Naganuma was appointed to the Board in February 2004 in place of Mr Inagaki. Mr Naganuma received no remuneration from the Company given his executive position with Asatsu DK. Jeffrey Rosen was appointed in December 2004 and, in addition, in March 2005, Lubna Olayan and Mark Read were appointed to the Board (and consequently do not appear in the table). Beth Axelrod resigned in March 2005.

[7] In addition to fees paid to them in 2004 as non-executive directors of the Company additional fees were received by Jeremy Bullmore and John Quelch of £23,500 and £26,000 respectively.

Directors' interests

Ordinary shares

Directors' interests in the Company's share capital, all of which were beneficial, were as follows[1]:

	At 1 Jan 2004	Shares acquired through long-term incentive plan awards in 2004[2] Vested	(sold)	Movement during 2004 inc. shares purchased in 2004[3]	At 31 Dec 2004 or earlier retirement date	Shares acquired through long-term incentive plan awards in 2005[2] Vested	(sold)	Other movements since 31 Dec 2004	At 10 May 2005 or earlier retirement or resignation
E L Axelrod[3, 4, 5]	25,000	9,600	–	41,120	75,720	4,859	(4,859)	–	75,720
J J D Bullmore[4]	20,065	–	–	–	20,065	–	–	–	20,065
E Dyson	5,000	–	–	30,000	35,000	–	–	–	35,000
O Gadiesh[4]	–	–	–	–	–	–	–	–	–
J B H Jackson[4]	12,500	–	–	–	12,500	–	–	–	12,500
M H Jordan[4]	20,185	–	–	–	20,185	–	–	–	20,185
D Komansky	10,000	–	–	–	10,000	–	–	–	10,000
P Lader	8,950	–	–	3,000	11,950	–	–	–	11,950
C Mackenzie	10,000	–	–	–	10,000	–	–	–	10,000
S W Morten	20,000	–	–	–	20.000	–	–	–	20,000
K Naganuma[6]	–	–	–	–	–	–	–	–	–
L Olayan[4]	–	–	–	–	–	–	–	–	–
H Paster[3, 5, 7]	509,736	263,850	(263,850)	(7,000)	502,736	–	–	(78,032)	424,704
J A Quelch	12,000	–	–	–	12,000	–	–	–	12,000
M Read[3, 4, 5]	3,000	–	–	–	3,000	–	–	–	3,000
P W G Richardson[3, 5, 7]	348,849	316,279	(210,128)	–	455,000	10,816	(4,816)	(234,824)	226,176
J Rosen[4]	–	–	–	–	–	–	–	–	–
P Spencer[4]	–	–	–	–	–	–	–	–	–
M S Sorrell[3, 5, 7, 8]	13,751,925	3,313,782	–	200,000	17,265,707	34,701	(34,701)	(1,637,346)	15,628,361

Notes

[1] Save as disclosed above and in the Report of the Compensation committee, no director had any interest in any contract of significance with the Group during the year.

[2] Further details of long-term incentive plans are given in the notes on pages 114 and 115.

[3] Each executive director has a technical interest as an employee and potential beneficiary in the Company's ESOPs in shares in the Company held under the ESOPs. At 31 December 2004, the Company's ESOPs held in total 51,657,256 shares in the Company (2003: 57,439,271 shares).

[4] Michael Jordan retired from the Board in June 2004 and Jeremy Bullmore and John Jackson retired from the Board in September 2004 when they respectively held 20,185, 20,065 and 12,500 shares. Beth Axelrod resigned from the Board on 24 March 2005 when she held 75,720 shares. Paul Spencer and Orit Gadiesh were appointed to the Board in April 2004, Jeffrey Rosen in December 2004, Lubna Olayan and Mark Read in March 2005.

[5] The above interests do not include the unvested interests of the executive directors in the Performance Share Plan.

[6] K Naganuma is a director of Asatsu-DK, which at 10 May 2005 was interested in 31,295,646 shares representing 2.28% of the issued share capital of the Company.

[7] In respect of Sir Martin Sorrell, Howard Paster and Paul Richardson, the above interests include investment shares committed to the 2004 award under Renewed LEAP, but do not include matching shares.

[8] In the case of Sir Martin Sorrell (through JMS) interests include 1,571,190 and 577,391 phantom options granted in 1993 and 1994 respectively, which were exercised on 23 March 2005, details of which are set out in the table on page 113. Also included for Sir Martin Sorrell are 4,691,392 shares in respect of the Capital Investment Plan part of which vested in September 2004 and in respect of which 987,742 shares vested but have not yet been exercised and Sir Martin Sorrell deferred a further 2,649,208 shares until 1 October 2008 and 1,754,520 shares in respect of the Notional Share Award Plan, which JMS exercised in September 2004. Sir Martin Sorrell also exercised rights over 313,796 shares under the Performance Share Plan in March 2005.

Awards satisfied and deferred by Sir Martin Sorrell

Notional Share Award Plan (NSAP) and Capital Investment Plan (CIP): Awards to JMS and Sir Martin Sorrell

	Grant Date	Share price on grant date	Exercise date	At 01.01.04 (no. of shares)	Deferred (no. of shares)	Vested/ exercised 2004 (no. of shares)	Share price on vesting date	At 31.12.04 (no. of shares)	Value received from vested/ exercised awards (£)
NSAP[1]	04.09.94	120p	01.09.04	1,754,520	–	1,754,520	496p	–	8,732,246
CIP[1, 2]	04.09.94	120p	01.09.04	4,691,392	2,649,208	2,042,184	496p	2,649,208	10,129,233

Notes

[1] These awards represented the number of shares, or cash equivalent of shares, which vested under the CIP and the NSAP.

[2] Of the 4,691,392 shares under the CIP, 2,042,184 shares vested on 1 September 2004 of which 987,742 shares have not yet been exercised. The remaining 2,649,208 shares have been deferred until 1 October 2008.

Phantom options[1]

	Grant/ Award Date	Exercise price	At 1 Jan 2004 (no. of shares)	Granted (lapsed) 2004 (no. of shares)	Exercised 2004 (no. of shares)	At 31 Dec 2004 (no. of shares)	Share price at 31 Dec 2004 (12 months high/low)	Percentage of maximum vesting potential	Exercised 2005 (no. of shares)[2]	Share price on exercise	Value on exercise (£)
M S Sorrell	Apr 1993	52.5p	1,571,190	–	–	1,571,190	573p (643p/469.5p)	100%	1,571,190	617.5p	8,877,224
	Apr 1994	115p	577,391	–	–	577,391	573p (643p/469.5p)	100%	577,391	617.5p	2,901,390

Notes

[1] The two awards shown in respect of Sir Martin Sorrell, relate to phantom option awards made to JMS in 1993 and 1994. (See note 3 in the table of directors' interests in the Company's share capital.) The award made in 1993 was in respect of 2,196,190 phantom options. JMS exercised 625,000 of the 1993 phantom options in 1997, leaving the current balance of 1,571,190 unexercised. The phantom option awards have vested in full and are not subject to performance conditions.

[2] The exercise of the phantom option awards took place on 23 March 2005; under an agreement dated 14 May 2001, the sum received was used by JMS to subscribe for 1,907,468 shares in aggregate.

Other long-term incentive plan awards

Long-term incentive plan awards granted to directors comprise the Performance Share Plan (PSP), the WPP Leadership Equity Acquisition Plan (Original LEAP) and Renewed LEAP.

Performance Share Plan awards to directors up to and including 31 December 2004[1]

	Grant Date	Share price on grant date (p)	At 01.01.04 (no. of shares)	Granted (lapsed) 2004 (no. of shares)	Performance period ends	Vested 06.03.04 (no. of shares)	Share price on vesting date (p)	At 31.12.04 (no. of shares)	Value received from vested awards (£)	Percentage of maximum vesting potential (%)
E L Axelrod	02.09.02	473.0	38,402	(19,201)	31.12.03	9,600	587.5	9,601	56,406	50
	18.09.02[2]	421.0	52,645	–	31.12.04	–	–	52,645	–	–
	30.04.04[3]	556.0	–	62,190	31.12.05	–	–	62,190	–	–
	30.04.04	556.0	–	67,535	31.12.06	–	–	67,535	–	–
H Paster	30.04.04[3]	556.0	–	79,150	31.12.05	–	–	79,150	–	–
	30.04.04	556.0	–	85,955	31.12.06	–	–	85,955	–	–
P W G Richardson	22.09.99	568.5	14,087	154[4]	31.12.01	14,241	587.5	–	83,666	85
	29.02.00	1,221.5	12,656	70[4]	31.12.02	6,398	587.5	6,328	37,588	69
	28.02.01	812.0	34,284	(17,142)	31.12.03	8,571	587.5	8,571	50,355	50
	18.09.02[2]	421.0	44,617	–	31.12.04	–	–	44,617	–	–
	30.04.04[3]	556.0	–	67,912	31.12.05	–	–	67,912	–	–
	30.04.04	556.0	–	92,025	31.12.06	–	–	92,025	–	–
M S Sorrell[5]	22.09.99	568.5	186,247	–	31.12.01	–	–	186,247	–	85
	29.02.00	1,221.5	94,500	–	31.12.02	–	–	94,500	–	69
	28.02.01	812.0	88,611	(44,305)	31.12.03	–	–	44,306	–	50
	18.09.02[2]	421.0	115,319	–	31.12.04	–	–	115,319	–	–
	30.04.04[3]	556.0	–	142,615	31.12.05	–	–	142,615	–	–
	30.04.04	556.0	–	171,779	31.12.06	–	–	171,779	–	–

Notes

[1] Performance conditions: The performance condition relates WPP's Total Shareholder Return (TSR) to the TSR results for a comparator group of communications services companies. No vesting takes place if the WPP TSR is below the median TSR result for the comparator group and full vesting occurs if WPP TSR is at least equal to the second highest result within the comparator group. Between these levels, awards vest on a sliding scale according to TSR performance.

A full description of the PSP is provided in the remuneration policy section. Details of the comparator groups which apply in respect of different awards are as follows (for companies which subsequently delisted, the date of delisting is shown in brackets). Details of the treatment of delisted companies for the purposes of TSR calculation are set out in note 1 to the table on Renewed LEAP below.

(i) For 2003 and 2004 awards: Aegis Communications Group, Arbitron, Dentsu, Digitas, Grey Global Group (delisted March 2005), Gfk, Havas Advertising, Ipsos, Omnicom, Publicis, Taylor Nelson Sofres, The Interpublic Group of Companies, and VNU.

(ii) For 2002 awards: Aegis Communications Group, Cordiant Communications (delisted July 2003), Grey Global Group (delisted March 2005), Havas Advertising, Omnicom, Publicis, Taylor Nelson Sofres and The Interpublic Group of Companies.

(iii) For 2001 awards, in addition to those listed at (ii): True North Communications (delisted June 2002).

(iv) For 2000 awards, in addition to those listed at (ii) and (iii): AC Nielsen (delisted February 2001), Saatchi & Saatchi (delisted September 2000) and Young & Rubicam (delisted October 2000).

(v) For 1999 awards, in addition to those listed at (ii) to (iv) above: Nielsen Media Research (delisted October 1999) and Snyder Communications (delisted September 2000).

[2] Following the calculation of TSR for WPP and the comparator group, the awards granted on 18 September 2002 have since lapsed.

[3] On 30 April 2004, awards were made to Beth Axelrod, Howard Paster, Paul Richardson and Sir Martin Sorrell in respect of period 2003-2005. The award to Beth Axelrod lapsed on her resignation on 24 March 2005.

[4] These shares represent dividends received in respect of restricted stock where the performance conditions have been satisfied, reinvested in the acquisition of further ordinary shares or ADRs.

[5] Sir Martin Sorrell deferred the vesting of 93,123 shares due to vest in 2002, 93,812 shares due to vest in 2003 and 92,340 shares due to vest in 2004, which would otherwise have been due to him under PSP. These awards together with 34,701 shares which vested in March 2005 were exercised on 23 March 2005.

Renewed Leadership Equity Acquisition Plan[1]

Name	Grant/ award date	Share units (ADRs/ Ords)	Maximum number of matching units at 01.01.04[2]	Granted/ (lapsed) 2004 (units)[2]	Maximum number of matching units at 31.12.04	Exercise price (per unit)
E L Axelrod[3]	28.10.04	ADRs	–	24,744	24,744	–
H Paster	28.10.04	ADRs	–	24,744	24,744	–
P W G Richardson	28.10.04	Ords	–	123,892	123,892	–
M S Sorrell	28.10.04	Ords	–	4,129,664	4,129,664	–

Notes

[1] Renewed LEAP participants are required to commit personal capital to the plan throughout the Investment Period. They are entitled to receive a maximum award of five shares for every Investment Share committed to the plan (the maximum award of four shares applies to awards made in 2004), subject to WPP TSR performance. The Renewed LEAP awards are nil-cost options subject to the performance and investment conditions provided for in the plan. A full description of Renewed LEAP is provided on pages 108 and 109. All awards shown in the above table, are dependent on WPP's TSR performance against a comparator group over the relevant performance period and maintenance of a participant's holding of Investment Shares and continued employment throughout the Investment Period. The comparator group for this award comprises of Aegis, Arbitron, Dentsu, Digitas, Gfk, Grey Advertising, Havas Advertising, IPG, Ipsos, Omnicom Group, Publicis, Taylor Nelson Sofres and VNU. Where a company delists during the performance period, the committee deem this to be a disposal and the proceeds are treated as being reinvested in the stock of the remaining companies.

[2] To the extent that the performance conditions are satisfied, the option becomes exercisable for a three-month period following the end of the Investment Period starting on a vesting date to be determined.

[3] The award to Beth Axelrod lapsed on her resignation on 24 March 2005.

Original Leadership Equity Acquisition Plan[1, 2]

Name	Grant/ award date	Share units (ADRs/Ords)	Value at grant date (per unit)	Number of matching units at 01.01.04[3]	Vested/ (lapsed) 2004 (units)[4]	Number of matching units at 31.12.04	Value on exercise (per unit)
H Paster	23.12.99	(ADRs)	$52.84	52,770	52,770	–	$46.70
P W G Richardson	23.12.99	(Ords)	£6.335	179,418	179,418	–	£5.19
	01.11.00	(Ords)	£9.25	107,651	107,651	–	£5.19
M S Sorrell	23.12.99	(Ords)	£6.335	3,221,442	3,221,442	–	£5.19

Notes

[1] Original LEAP participants were required to commit personal capital to the plan throughout the Investment Period. They were entitled to receive a maximum award of five shares for every Investment Share committed to the plan, subject to WPP TSR performance against a comparator group over the five-year performance period 1 January 1999 to 31 December 2003 and maintenance of a participant's holding of Investment Shares and continued employment throughout the Investment Period. The comparator group for this award was comprised of Aegis, Cordiant, Grey Advertising, Havas Advertising, IPG, AC Nelson Media Research, Omnicom Group, Publicis, Saatchi & Saatchi, Snyder Communications, Taylor Nelson Sofres, True North Communications, WPP and Young & Rubicam. Where a company delisted during the performance period, the committee deemed this to be a disposal and the proceeds treated as being reinvested in the stock of the remaining companies.

[2] On 2 September 2002, Beth Axelrod received two awards in relation to Original LEAP. These awards lapsed on her resignation on 24 March 2005.

The awards were made under special arrangements, approved by the Compensation committee in contemplation of her appointment. The award was subject to a reduced level of match (ie without the minimum half-share). The Performance Period for the award was the five-year period 1 January 2002 to 31 December 2006. The comparator group comprised of Aegis, Cordiant, Grey, Havas, IPG, Omnicom, Publicis, Taylor Nelson Sofres, True North and WPP. In tandem with her Original LEAP award, a special award of 8,500 units of restricted stock was made. This award was subject to continued employment with the Group and has lapsed on her resignation on 24 March 2004.

Number of matching ADRs at 01.01.04	Vested/ (lapsed) 2004	Number of matching ADRs at 31.12.04	Exercise price (per ADR)	Option element: Earliest exercise	Option element: Expiry	Bonus element: Value at grant date (per ADR)	Bonus element: Qualifying period ends
76,500	–	76,500	$36.98	01.02.07	01.04.07	$36.98	01.01.07
8,500	–	8,500	$36.98	01.02.07	01.04.07	$36.98	01.01.07

To the extent that the performance conditions are satisfied, the option element of the award would have become exercisable for a three month period following the end of the Investment Period, the first and last dates of which are shown above. In accordance with the requirements of fixed plan accounting under US GAAP, any option not previously exercisable may become so in full, with no restriction other than continued employment with the Group for a period of six weeks prior to the tenth anniversary of grant, when it will expire.

[3] As reported in last year's Annual Report and Accounts, the number of matching units at 1 January 2004 represents 3 matching shares per investment share committed by each participant to Original LEAP. The number of matching shares was based on the Company's TSR being ranked 6th in the comparator group over the Performance Period, which ended on 31 December 2003. Following the end of the Performance Period, the participants were required to maintain their interest in their investment shares, and remain in employment with the Company, throughout the remainder of the Investment Period.

[4] At the end of the Investment Period, the awards to Howard Paster, Paul Richardson and Sir Martin Sorrell fully vested on 22 September 2004. The awards to Howard Pastor and Paul Richardson were satisfied by the transfer of shares from one of the Company's ESOPs. The Original LEAP award to Sir Martin Sorrell was apportioned between JMS and Sir Martin personally based on the time spent by Sir Martin providing services to WPP Group USA, Inc. The award to JMS was satisfied by a cash award which JMS used to subscribe for 1,912,983 shares. Sir Martin's award was satisfied by the transfer of 1,308,459 shares from one of the Company's ESOPs.

US-style proxy disclosures – information not subject to audit

Compensation of executive officers

The information contained in the following four tables sets out the compensation details for the Group chief executive and each of the other four most highly compensated executive officers in the Group as at 31 December 2004 (the 'executive officers'). The information is in addition to the disclosure required under UK legislation and regulations. As used in this statement, the 'executive officers' are deemed to include executive directors of the Company, or an executive who served as the chief executive officer of one of the Group's major operating companies.

This information covers compensation for services rendered in all capacities and paid in the financial year ended 31 December 2004 and in the previous two financial years in a format similar to a US-style proxy. Incentive compensation paid in 2005 for performance in 2004 and previous years is not included in these tables. The bonus payments referred to below are payments made in 2004, 2003 and 2002 under the short-term incentive awards for performance in 2003, 2002 and 2001 respectively.

Summary compensation table[1]

			Annual compensation			Long-term compensation		
						Awards	Payouts	
Name	Principal position	Year	Salary $000	Bonus[2] $000	Other annual compensation[3] $000	Securities underlying options/SARs[4] Number	LTIP payments[5] $000	All other compensation[6] $000
M S Sorrell	Group chief executive	2004	1,539	2,309	46	–	30,640	603
		2003	1,374	–	40	–	–	1,733
		2002	1,261	–	36	–	–	505
S Lazarus	Chairman/ Chief executive officer	2004	850	757[7]	37	65,501	9,599	648
	Ogilvy & Mather	2003	850	906[7]	36	63,805	502	648
	Worldwide	2002	850	925[7]	36	82,831	536	1,445
P Schweitzer	President/	2004	750	406	31	–	5,539	123
	Chief executive officer	2003	750	180	59	21,092	314	179
	JWT	2002	750	–	51	39,548	416	352
P W G Richardson	Group finance director	2004	800	454	177	–	2,952	165
		2003	731	164	159	–	251	120
		2002	504	–	90	–	686	49
I Gotlieb	Chairman/	2004	750	613	16	14,763	971	38
	Chief executive officer	2003	750	536	16	15,819	506	38
	GroupM	2002	750	300	21	45,180	375	38

Notes

[1] Amounts paid in sterling have been converted into US dollars using the following annual average exchange rates; 2004: $1.8326/£; 2003: $1.6356/£; and 2002: $1.5036/£.

[2] Represents short-term incentive awards paid during calendar years 2004, 2003 and 2002 in respect of the prior year's incentive plans.

[3] Includes the value of company cars, club memberships, executive health and other benefits, supplemental executive life insurance, and in the case of Paul Richardson during 2004 he also received in addition a tax equalisation payment in the gross amount of $416k from WPP Group USA, Inc. Sir Martin Sorrell also received in addition a gross payment of $481k from WPP Group USA, Inc. to reimburse fees in respect of professional services upon which the Company also relied and arising as a result of various Group transactions.

[4] As used in this report, the term 'phantom ADRs/shares' (as used in the UK) and the term 'free-standing SARs' (as used in the US) are interchangeable.

[5] Includes value of payments made under the PSP and LTIP in stock and cash. These figures also include the value of matching shares vesting under Original LEAP. In the case of Sir Martin Sorrell $30,640k; Shelly Lazarus $9,026k; Peter Schweitzer $5,408k; and Paul Richardson $2,730k.

[6] Includes accruals during each calendar year under consideration, under defined contribution retirement and defined benefit retirement arrangements. In relation to Shelly Lazarus this includes a special award to the sum of $797k in 2002.

[7] Includes a guaranteed bonus of $150k.

Option/SAR grants in 2004[1]

	Number of securities underlying option/SARs granted (number of ADRs)	% of total options/SARs granted by Company in 2004	Exercise price ($ per ADR)	Expiry date	Potential realisable value at assumed annual rates of stock price appreciation for option term 0% $	5% $	10% $
M S Sorrell	–	–	–	–	–	–	–
S Lazarus	65,501	2.1	50.80	29.10.14	–	2,092,616	5,303,100
P Schweitzer	–	–	–	–	–	–	–
P W G Richardson	–	–	–	–	–	–	–
I Gotlieb	14,763	0.5	50.80	29.10.14	–	471,646	1,195,244

Notes
[1] All options granted to executives in this table are exercisable three years from the grant date (subject to achievement of performance conditions) and expire 10 years from the grant date.

Stock option, SAR and phantom stock exercises in last financial year and final year-end share option, SAR and phantom stock values

	Ordinary shares acquired on exercise	Value realized ($)	Number of ordinary shares underlying unexercised share options, SARs and phantom stocks at year-end		Value of unexercised in-the-money stock options, SARs and phantom stocks at year-end ($)[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M S Sorrell	–	–	3,136,323[2]	2,649,208[3]	31,576,665	29,081,659
S Lazarus	718,791	3,879,431	91,440	1,493,025	149,870	3,858,145
P Schweitzer	–	–	223,566	464,285	1,199,132	1,360,498
P W G Richardson	–	–	–	–	–	–
I Gotlieb	–	–	484,130	378,810	793,489	1,143,993

Notes
[1] The value is calculated by subtracting the exercise price from the fair market value of the Company's ordinary shares on 31 December 2004, namely £5.73 or the value of the Company's ADRs, namely $54.67 and using an exchange rate of $1.9158 to £1.
[2] Comprising 2,148,581 phantom options as noted in previous reports. In addition, an option over 987,742 shares arose following partial deferral of the award under the Capital Investment Plan on 1 September 2004.
[3] Deferred stock arising following partial deferral of the award under the Capital Investment Plan on 1 September 2004.

Long-term incentive plan grants in relation to 2004

	Plan	Performance period	Estimated future payouts Threshold Units	Target Units	Maximum Units
M S Sorrell[1]	Performance Share plan	2004 – 2006	–	11,452	34,356
	Renewed LEAP[2]	2004 – 2007	–	309,725	825,933
S Lazarus	OpCo LTIP	2004 – 2006	–	15,213	22,820
	Renewed LEAP[2]	2004 – 2007	–	24,743	65,980
P Schweitzer	OpCo LTIP	2004 – 2006	–	14,199	21,299
P W G Richardson[1]	Performance Share plan	2004 – 2006	–	6,135	18,405
	Renewed LEAP[2]	2004 – 2007	–	9,292	24,778
I Gotlieb	OpCo LTIP	2004 – 2006	–	15,213	22,820
	Renewed LEAP[2]	2004 – 2007	–	9,279	24,744

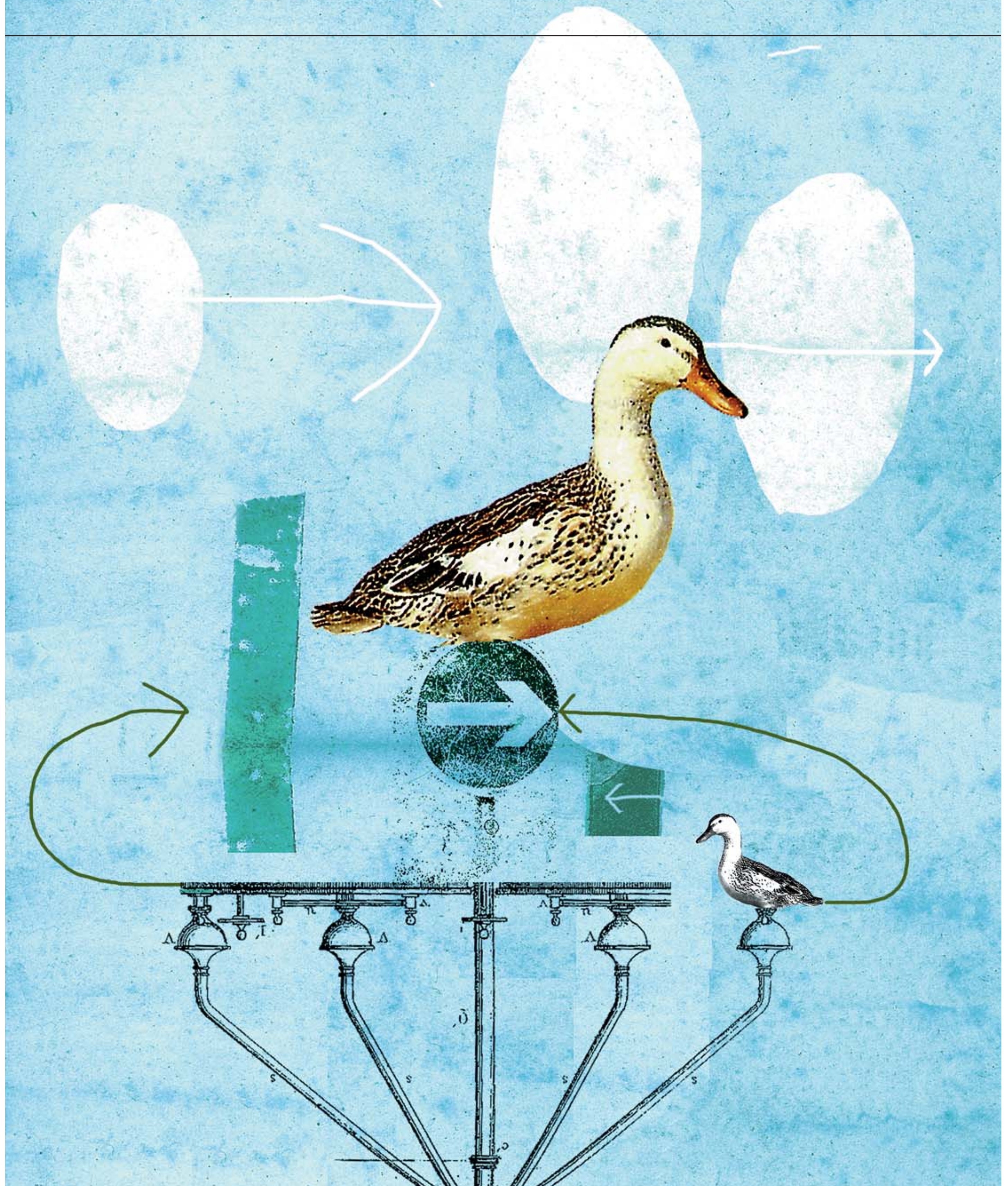
Notes
[1] Actual awards were made over ordinary shares but are shown here as ADRs for ease of comparison.
[2] Target Units have been calculated on the basis of 1.5 matching shares for each investment share committed to Renewed LEAP and Maximum Units on the basis of four matching shares for each investment share.

ADR/share price at year end and during the year

	31 December 2004	12 month high	12 month low
ADR	$54.67	$59.50	$42.79
Ordinary	£5.73	£6.43	£4.695

Stanley W Morten
Chairman of the Compensation committee
on behalf of the Board of Directors of WPP Group plc
10 May 2005

Operating and financial review



Competitive performance

Our Media investment management businesses started to improve in October 2002, and then significantly from April 2003. This growth continued for the remainder of 2003 and escalated during 2004, primarily driven by the strong new business wins, in turn driven by client consolidation. Advertising has followed this trend, but less strongly. Information, insight & consultancy continued the strong growth seen in the first half. Branding & identity, Healthcare and Specialist communications rebounded with Healthcare and direct, internet and interactive (a part of Specialist communications), growing particularly strongly. Public relations & public affairs, which was more affected by the recession, has recovered well and has now had five consecutive quarters of revenue growth on a constant currency basis.

A record estimated net new billings of £3.794 billion ($6.829 billion) were won last year, reflecting in part exceptionally strong media investment management new business wins in the final quarter of 2004, which alone amounted to almost $3.2 billion. The Group was ranked number one for net new billings in all the major new business tables for 2004.

In these circumstances, there is no reason to believe that the Group cannot improve upon the revised objective set after the announcement of the acquisition of Grey Global Group ('Grey') of achieving operating margins of 14.0% in 2005 and 14.5% in 2006 (on a UK GAAP basis). Your Board now believes that the Group can improve its operating margins to a minimum of 14.3% this year, and 14.8% in 2006, including Grey. Budgets for 2005 include this operating margin objective. Neither is there any reason why operating margins could not be improved beyond this level by continued focus on revenue growth and careful husbandry of costs. Our ultimate objective continues to be to achieve a 20% margin over a period of time and to improve the return on capital employed.

Revenue per head[2]
$000

	Year	
WPP	**04†**	**134.9**
	03†	135.6
Advertising and Media investment management	**04†**	**122.3**
	03†	120.8
Omnicom[1]	**04**	**163.1**
	03	148.5
IPG[1]	**04**	**n/a**
	03	135.1

†Constant currency. See definition on page 170.

Headline PBIT[3] margins
%

	Year	
WPP	**04**	**14.1**
	03	13.0
Advertising and Media investment management	**04**	**16.1**
	03	15.3
Omnicom[1]	**04**	**12.6**
	03	12.8
IPG[1]	**04**	**n/a**
	03	2.5

Notes

[1] The figures above for Omnicom and IPG (The Interpublic Group) have been derived from their respective 10-K filings with the SEC. As both these companies report under US GAAP, the above figures should be read as indicative of their financial performance as they are not directly comparable with WPP's UK GAAP reporting. Additionally, adjustments have been made to conform the reported results of these companies to a presentation that is comparable – as far as the information disclosed in the Company's 10-K filings allows – to that of WPP. At the time of compiling this report, IPG had not filed their 10-K with the SEC for the year ended 31 December 2004. As a result no 2004 information for IPG was available for inclusion in the above tables.

With effect from 1 January 2004, Omnicom elected to account for stock-based employee compensation using the fair value method, in accordance with FAS 123 'Accounting for Stock-Based Compensation'. Had WPP charged stock-based compensation to the profit and loss account at fair value in accordance with FRS 20 (IFRS 2) Share-based payment, then WPP's Headline PBIT margins would have been 13.5% and 12.3% for the years ended 31 December 2004 and 2003, respectively.

[2] Revenue per head has been calculated as reported revenue divided by the average number of employees in the relevant year. For Omnicom and IPG, who do not report average headcount in their 10-K filings, it has been estimated as the average of opening and closing headcount for the year.

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

Geographic performance

All regions showed revenue growth in 2004 on a constant currency basis, with Asia Pacific, Latin America, Africa and the Middle East growing fastest and crossing $1 billion of annual revenues for the second time. Including 100% of associates' revenue these regions represent over 25% of total revenues. The acquisition of Grey will add a further $150 million of revenues in these areas.

Constant currency† revenue growth
%

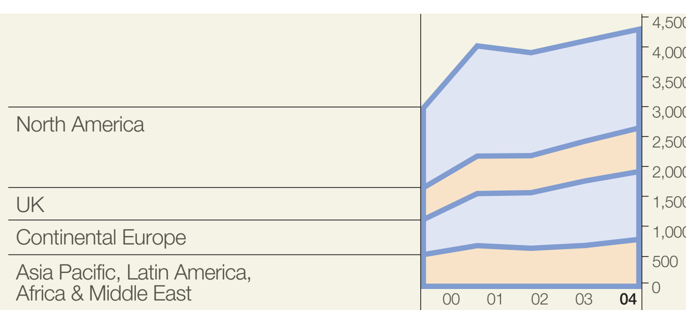
Region	Year	%
North America	04	**9.7**
	03	5.8
UK	04	**9.6**
	03	7.4
Continental Europe	04	**7.6**
	03	6.5
Asia Pacific, Latin America, Africa & Middle East	04	**23.7**
	03	13.0

†See definition on page 170.

Headline PBIT[1] margins by geography
%

Region	Year	%
North America	04	**15.9**
	03	14.8
UK	04	**11.2**
	03	10.8
Continental Europe	04	**12.4**
	03	11.3
Asia Pacific, Latin America, Africa & Middle East	04	**15.6**
	03	13.5

Revenue by geography
£m



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

Sector performance

Advertising and Media investment management

In constant currencies, Advertising and Media investment management revenue grew by 10.8%. Like-for-like revenue growth was well over 3%. Excluding the impact of the acquisition of Cordiant, like-for-like growth was almost 6%. The combined operating margin of this sector was over 16%.

In 2004, Ogilvy & Mather generated estimated net new billings of £153 million ($276 million), JWT £234 million ($421 million), Y&R £74 million ($134 million) and Red Cell £62 million ($111 million).

Also in 2004, MindShare and Mediaedge:cia generated estimated net new billings of £2.781 billion ($5.005 billion).

Information, insight & consultancy

Information, insight & consultancy seems to have been the most recession resistant communications service in the Group. In 2004, on a constant currency basis revenues grew over 11%. Like-for-like revenues were up over 4%. The difficulties at the Group's call centre operations in the US have now been overcome, with significant improvement in 2004. Overall margins improved by 2.7 margin points to almost 10% on a constant currency basis.

Strong performances were recorded by Millward Brown (in the US, Greenfield Consulting Group and MaPs, Sadek Wynberg and Precis in the UK, IMS in Ireland, Ulster, Italy, Germany, China, Firefly in Thailand, Australia and Mexico); BMRB International in the UK, KMR, AGBNielsen Media Research, Research International (in the US, Simon Godfrey in the UK, Germany, Greece, France, the Netherlands, Spain, SIFO in Sweden, Thailand, Singapore, Hong Kong and Indonesia); Lightspeed Research, Da Vinci in the US, icon/DRI, Glendinning in the UK, Added Value/icon in France and pFour.

Public relations & public affairs

Public relations & public affairs continued its recovery first seen in the last quarter of 2003, with constant currency growth of over 6% and like-for-like growth of over 3%. Particularly strong were Cohn & Wolfe, Ogilvy Public Relations Worldwide, Burson-Marsteller, Penn, Schoen & Berland, Finsbury and Buchanan.

Operating margins continued to improve and now exceed 14% on a constant currency basis, an improvement of over one margin point.

Constant currency† revenue growth

%

Sector	Year	%
Advertising and Media investment management[2]	04	10.8
	03	9.2
Information, insight & consultancy	04	11.5
	03	6.8
Public relations & public affairs[2]	04	6.5
	03	-0.6
Branding & identity, Healthcare and Specialist communications	04	14.6
	03	8.0

†See definition on page 170.

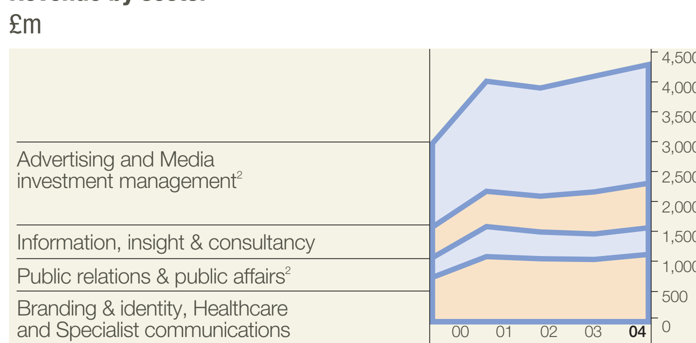
Headline PBIT[1] margins by sector

%

Sector	Year	%
Advertising and Media investment management[2]	04	16.1
	03	15.3
Information, insight & consultancy	04	9.9
	03	7.1
Public relations & public affairs[2]	04	14.0
	03	12.9
Branding & identity, Healthcare and Specialist communications	04	13.6
	03	12.8

Revenue by sector

£m



Notes

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

[2] In 2004 certain of the Group's public relations and public affairs businesses, which were historically included in Advertising and Media investment management have been moved to Public relations & public affairs. As a result the comparative figures for both Advertising and Media investment management and Public relations & public affairs have been restated to reflect this change.

Operating and financial review

Sector performance
Review of operations

Review of operations

The Group's financial performance in the year more than mirrored the continuing improvement in economic conditions across the globe, with even the weakest region, Western Europe, picking up in the second half.

2004 reflected the positive impact of quadrennial factors such as the US Presidential Election, political advertising in the US pushing up media rates, the Athens Olympics and the European Football Championships. 2004 also marked a switch in client focus to top-line growth, as corporate profitability, margins and liquidity improved significantly, following cost management in the recession of 2001-2003. Corporate profitability is at historically high levels on both sides of the Atlantic. This resulted in unprecedented levels of new business activity, which have continued into 2005.

Network television price inflation and declining audiences, fragmentation of traditional media and rapid development of new technologies continued to drive experimentation by our clients in new media and non-traditional alternatives. 1998 was really the first year when WPP's marketing services activities represented over 50% of Group revenue. In 2004 these activities represented almost 54% of Group revenue. In addition, in 2004, our narrowly defined internet-related revenue was almost $400 million or over 5% of our worldwide reported revenue. This is in line with over 5% for on-line media's share of total advertising spend in the US and approximately 4% share worldwide. The new media continue to build their share of client spending.

Branding & identity, Healthcare and Specialist communications

The Group's Branding and identity, Healthcare and Specialist communications revenues rose by over 14%. Like-for-like revenues rose by over 5%. Operating margins were up 0.9 margin points to 13.5% on a constant currency basis. The Group's healthcare and direct, internet and interactive businesses showed particularly strong revenue growth.

Several companies performed particularly well:

- In Branding & Identity – Landor Associates in New York, Cincinnati, the UK, Dubai, Mexico, Japan and Hong Kong; Enterprise IG New York and WalkerGroup in the US, Addison Corporate Marketing and Warwicks in the UK; Fitch in Columbus and Phoenix in the US and the UK, including PCI Fitch; The Partners in the UK.
- In Healthcare – CommonHealth in the US; Sudler & Hennessey in the US including HealthAnswers Education, and in Australia.
- In promotion and direct marketing – OgilvyOne (in New York, Minneapolis and Eicoff in the US, the UK, Sweden, the Netherlands and Austria, Concept in Germany, Italy, the Czech Republic and Mexico); 141 Worldwide in the US, the UK, Italy and Mexico; Wunderman (in Detroit/Irvine and Chicago in the US, Burrows and the Automotive Group in the UK, Germany, Switzerland, the Netherlands, Portugal, Belgium, Greece, Brazil, Mexico and Australia).
- In specialist marketing resources – VML, Einson Freeman and Pace in the US and EWA, Mando Brand Assurance, Metro, PRISM, Premiere Sponsorship Marketing and Headcount in the UK.

Manufacturing

Revenues and profits at the Group's manufacturing division were down significantly in 2004.

Group financial performance

Turnover was up 5.2% at £19.6 billion. Reportable revenue was up almost 5% to £4.299 billion. Revenue including associates is estimated to total £5.283 billion.

Profit pre-goodwill amortisation and impairment, interest, tax, investment gains and write-downs was up almost 14% to £607.7 million from £533.5 million and up over 21% in constant currencies.

Net interest payable and similar charges (including a charge of £9.5 million for the early adoption of FRS 17) fell to £70.7 million from £71.6 million, principally reflecting improved average net debt levels, and a lower FRS 17 charge, largely offset by higher interest rates. Headline interest cover remains at a level of over eight times and at almost ten times, excluding the FRS 17 charge.

Profit before interest, tax, fixed asset gains and write-downs was up 25.6% to £529.2 million from £421.5 million.

The Group's tax rate on headline profits was 25.7%, a similar level to the previous year, reflecting the continued positive impact of the Group's tax planning initiatives.

Headline diluted earnings per share were up over 11% at 32.3p. In constant currency, earnings per share on the same basis were up over 20%.

In 2003, £79 million was taken as an impairment charge primarily reflecting accelerated amortisation of goodwill on first generation businesses which suffered in the recession. Although 2004 was a stronger year than 2003, some first generation businesses continued to suffer and an impairment charge reflecting accelerated amortisation of goodwill of £36 million has been taken.

As a result, profit before tax rose over 30% to £456.5 million and diluted earnings per share rose by over 37% to 25.0p.

The Board recommends an increase of 20% in the final dividend to 5.28p per share, making a total of 7.78p per share for 2004, a 20% increase over 2003. The record date for this dividend is 3 June 2005, payable on 4 July 2005. The dividend for 2004 is 4.2 times covered by Headline earnings.

Operating margins

Pre-goodwill amortisation and impairment, reported operating margins (including income from associates) increased to 14.1% from 13.0%. Post-goodwill amortisation and impairment, reported profit before interest, tax, investment gains and write-downs was up over 25% to £529.2 million from £421.5 million. Before incentive payments totalling £160.6 million or over 22% (almost 21% in 2003) of operating profit before bonuses, taxes and income from associates, operating margins increased by 1.6 margin points to 16.8% from 15.2%.

Reported operating costs including direct costs (but excluding goodwill amortisation and impairment), rose by almost 4% and by almost 11% in constant currency. Like-for-like total operating and direct costs rose over 3%.

On a reported basis the Group's staff cost to gross margin ratio rose to 61.4% from 61.1%. Excluding incentives, this ratio fell 0.2 margin points to 57.5% from 57.7%. Staff costs excluding incentives were up almost 5%, with salaries and freelance costs up 5.1%.

All these figures exclude share option costs, which amount to approximately 0.6 of a margin point using the Black-Scholes valuation model.

Variable staff costs as a proportion of total staff costs increased during the 1990s, reaching a peak of 12.1% in 2000. The impact of the recession in 2001 and 2002 was to reduce this ratio to 9.2% and variable staff costs as a proportion of revenue to 5.3%. In 2004, following the significant improvement in pre-bonus operating profit, incentives increased and variable staff costs as a proportion of staff costs rose to 12.2%, higher than the previous maximum achieved in 2000, with variable staff costs as a proportion of revenues rising to another peak of 7.1%. Non-staff costs fell as a proportion of revenues, from 24.6% to 23.4%, partly reflecting a reduction in the Group's property costs following actions taken in 2003 and a reduction in IT costs.

The task of improving property utilisation continues to be a priority with a portfolio of approximately 14.5 million square feet worldwide. In December 2002, establishment cost as a percentage of revenue was 8.4%, with a goal of reducing this ratio to 7% in the medium term. At the end of 2003 the establishment cost to revenue ratio reduced to 7.9% and by December 2004 this ratio improved further to 7.6%, driven by better utilisation and higher revenues. There should be further opportunities to improve utilisation in the future, as we integrate 2.8 million square feet of property within Grey into the portfolio.

Like-for-like performance

On a constant currency basis, revenue was up over 11% and gross profit up over 12%. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were up over 4%. Excluding the acquisition of Cordiant Communications Group plc ('Cordiant'), like-for-like revenues were up 5.6%. Like-for-like revenues were up over 2% in the first half of 2004 and up almost 6% in the second half. Sequential quarters in 2004 were up 1.8%, 3.0%, 5.7%, and 5.7%.

Whilst reported profit before interest, tax, fixed asset gains and write-downs was up over 25%, the increase was over 35% on a constant currency basis, reflecting the weakness of the US dollar. This adverse currency impact was partly offset by the effect of dollar denominated interest costs.

Headcount

The number of people in the Group averaged 57,788 against 51,604 in 2003, an increase of 12.0%. On a like-for-like basis, average headcount was up marginally to 57,788 from 57,623, an increase of 0.3%. At the end of 2004, staff numbers were 59,932 compared with 57,478 at the end of 2003 on a pro forma basis, an increase of 4.3%.

Acquisitions and start-ups

In 2004 the Group increased its equity interests, at a combined net initial cost of £113 million in cash, in advertising and media investment management in Canada, Denmark, France, Germany, the Netherlands, Italy, Sweden, Poland, South Africa, China, Japan, India, South Korea, Indonesia and Chile; in information, insight and consultancy in the US, Hungary, and in television audience measurement in seventeen countries through an increased investment in Italy; in public relations and public affairs in the US and the UK; in healthcare in the Netherlands; and in branding and identity in the US and Australia.

The acquisition of Grey was completed on 7 March 2005 and Grey will be consolidated from that date.

Executive options

WPP will be required to charge the fair value of stock-based compensation (including share options) to its income statement from 2005. The resulting charge of £28.9 million in 2004 (2003: £29.3 million) that would have impacted the income statement on a pro forma basis has been calculated using a Black-Scholes valuation model and applying it to the relevant share incentive schemes on a fully retrospective basis. Therefore, the 2004 charge arises from grants in 2004 and prior years, fully expensed over the appropriate vesting period. The impact of these charges on Headline PBIT margin for 2004 would be to reduce it by 0.6 margin points (2003: 0.7 margin points).

Parent company initiatives

Increasingly, WPP is concentrating on its mission of the "management of the imagination", and ensuring it is a big company with the heart and mind of a small one. To aid the achievement of this objective and to develop the benefits of membership in the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development. Ten practice areas which span all our brands have been developed initially in media investment management, healthcare, privatisation, new technologies, new faster-growing markets, internal communications, retailing, entertainment and media, financial services and hi-tech and telecommunications.

Treasury activities

Treasury activity is managed centrally, from the parent company's London, New York and Hong Kong offices, and is principally concerned with the monitoring of working capital, managing external and internal funding requirements and the monitoring and management of financial market risks, in particular interest rate and foreign exchange exposures.

The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of directors and subject to regular review and audit.

The Group's interest rate management policy recognises that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

Its principal borrowing currencies are US dollars, pounds sterling and euros. Borrowings in these currencies, including amounts drawn under the working capital facility, represented 93% of the Group's gross indebtedness at 31 December 2004 (at $1,534 million, £239 million and €1,048 million) and 93% of the Group's average gross debt during the course of 2004 (at $1,471 million, £275 million and €1,031 million). 55% of the year-end US dollar debt is at fixed rates averaging 5.19% for an average period of 41 months. 100% of the GBP debt is at a fixed rate of 1.94% (including the effect of the redemption premium on the £450 million 2% convertible bonds) for an average period of 28 months. 23.85% of the euro debt is at fixed rates averaging 6.0% for an average period of 42 months.

In June 2004 the Group issued US$650 million of USD 2014 bonds carring a coupon of 5.875%. Proceeds from this issue were applied to assist in the redemption of €350 million 5.125% bonds due 2004 and the Young & Rubicam Inc 3% convertible bonds due January 2005.

Other than fixed rate debt, the Group's other fixed rates are achieved principally through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2004, no forward rate agreements or interest rate caps were outstanding.

These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowing and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis.

An analysis of the debt and fixed rate maturities is shown in note 9 of the financial statements on page 140.

The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained in excess of peak net borrowing levels and debt maturities are closely monitored.

Targets for average net debt are set on an annual basis and, to assist in meeting this, working capital targets are set for all the Group's major operations.

The Group's significant international operations give rise to an exposure to changes in foreign exchange rates. The Group seeks to mitigate the effect of these structural currency exposures by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars and euros, as these are the predominant currencies of revenues.

The Group's operations conduct the majority of their activities in their own local currency and consequently the Group has no significant transactional foreign exchange exposures. Any significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. There were no such material contracts in place at 31 December 2004. No speculative foreign exchange trading is undertaken.

Cash flow

Net debt averaged £810 million in 2004, down £412 million against £1,222 million in 2003 (down £323 million at 2004 exchange rates). With an equity market capitalisation at 31 March 2005 of approximately £7.6 billion, and average net debt in the first quarter of 2005 of £586 million (excluding the Group's working capital facility), this would give a total enterprise value of approximately £8.2 billion.

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2004, operating profit before goodwill amortisation and impairment was £560 million, capital expenditure £96 million, depreciation £103 million, tax paid £101 million, returns on investments and servicing of finance of £73 million and other net cash inflows of £55 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £448 million. This free cash flow was partially absorbed by £218 million in net acquisition payments and investments, share repurchases and cancellations of £89 million and dividends of £82 million. The Company more than met its stated objective of covering acquisition payments and share repurchases and cancellations from free cash flow, even after including dividends.

The Company continues to examine ways of deploying its substantial cash flow of approximately £450 million per annum to enhance share owner value. As necessary capital expenditure is expected to remain equal to or less than the depreciation charge in the long-term, the Company has concentrated on examining potential acquisitions and on returning excess capital to share owners in the form of dividends or share buy-backs.

Last year, 13.4 million ordinary shares or 1.1% of the share capital were repurchased and cancelled at a total cost of £73.7 million and average price of 550p.

As noted above, your Board has decided to increase the final dividend by 20% to 5.28p per share, taking the full year dividend to 7.78p per share which is 4.2 times covered, at the Headline earnings level. In addition, as the return on capital criteria for investing in cash acquisitions have been raised, particularly in the US, the Company will continue to commit to repurchasing up to 2% of its share base in the

open market at an approximate cost of £150 million, when market conditions are appropriate. Such annual rolling share repurchases are believed to have a more significant impact in improving share owner value than sporadic buy-backs.

Pensions funding

The Group's pension deficit was £202.3 million as at 31 December 2004, compared to £198.9 million as at 31 December 2003. The pension deficit on plans in the UK increased as a result of the introduction of new mortality tables used in the assumptions underlying the present value of scheme liabilities. Also in the UK, the discount rate decreased from 5.5% to 5.3% due to changes in economic conditions and specifically the lower yields available on high-quality UK corporate debt. In North America, the pension deficit reduction reflects increased pension contributions, partially offset by a decrease in the discount rate from 6.3% to 5.7% reflecting the lower yields available on high-quality US corporate debt.

Most of the Group's pension scheme assets are held by its schemes in the UK and North America. In the UK, the forecasted weighted average return on assets decreased from 5.8% as at 31 December 2003 to 5.7% as at 31 December 2004, due to decreases in expected rates of return on corporate bonds. In North America, the company reduced its expected rate of return on North American equities in light of the lower expected yields available in the market from 8.2% as at 31 December 2003, to 7.9% as at 31 December 2004. As a result, the forecasted weighted average return in North America decreased from 7.0% to 6.9%.

Contributions to funded schemes are determined in line with local conditions and practices. Certain contributions in respect of unfunded schemes are paid as they fall due. Our advisors indicate that further average cash contributions of approximately £12-13 million per annum would be necessary to fully fund all funded pension schemes over the remaining expected funding period.

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 2004, this resulted in an increase of £52 million (2003: increase of £75 million) in the pounds sterling value of share owners' funds due to movements in exchange rates. In 2004, net assets of £3,966 million compared with £3,816 million in 2003.

2004 cash flow

£m

2003 cash flow

£m

2002 cash flow[2]

£m

Notes

[1] The calculation of free cash flow is set out in note 28.

[2] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Operating and financial review

Review of operations

Future prospects

The world economy continued to grow in 2004, after the pickup in 2003, driven by the US, Asia Pacific, Latin America, the Middle East, Russia and the CIS countries. As a result, your Company has performed at record levels. Whilst like-for-like revenues have grown beyond market expectations, like-for-like average headcount has remained almost constant, up only 0.3%.

Following this productivity improvement, the Group's margins at both the pre- and post- incentive levels have improved significantly. In addition, given improved levels of operating profit and margin, incentive pools and variable staff costs have now been re-built, after being diminished by the recession. This will improve operational gearing and flexibility in 2005 and beyond.

As usual our budgets for 2005 have been prepared on a conservative basis, largely excluding new business, particularly in advertising and media investment management. They predict improvements in like-for-like revenues in the range of 3-4%, with balanced growth in the first and second half of the year. They also indicate similar growth for both advertising and marketing services revenues.

In the first quarter of 2005 reported revenues rose by over 16%. Constant currency revenues were up over 16% primarily reflecting strong organic growth and a first-time contribution from Grey from 7 March. The impact of currency in the first quarter of 2005 was minimal. On a like-for-like basis, excluding acquisitions and currency fluctuations, revenues were up almost 6%.

Net new business billings of £875 million ($1.62 billion) were won during the first quarter of 2005.

Net debt at 31 March 2005 was £938 million, compared with £825 million at 31 March 2004. Average net debt in the first quarter of 2005 was £586 million compared to £826 million in 2004, at 2005 exchange rates. In January 2005 the $288m 3% convertible bond issued by Y&R in 2000 was redeemed at par from existing resources, resulting in the expiry of the associated conversion rights into 16.3 million WPP shares. In the 12 months to 31 March 2005, the Group's free cash flow was £572 million. Over the same period, the Group's expenditure on capital, acquisitions, share re-purchases and cancellations was £646 million (including a £384 million gross cash payment for Grey).

Worldwide economic conditions are set to continue to improve in 2005 – the only economic worry being whether twin deficits, commodity price inflation and the weak dollar, might destabilise the US economy. This year's prospects, therefore, look okay, with worldwide advertising and marketing services spending set to rise by at least 2-3% with your company expected to grow at 3-4% and therefore increasing share. Although growth in the world economy continues to be led by Asia Pacific, Latin America, Africa and the Middle East, Russia and the CIS countries, even Western Europe looks set to continue the improvement seen in the second half of 2004, the UK especially so, given the general election.

2006 should benefit from the mini-quadrennial impact of the mid-term US Congressional elections, the FIFA World Cup and Winter Olympics in Turin.

2007 should also benefit from the build-up to the US Presidential elections and the Beijing Olympics in 2008, which, as a maxi-quadrennial year, should be a very strong one, buoyed by those events plus heavy US political advertising and the European Football Championships.

In the short-term, growth in advertising and marketing services expenditure may remain in low to medium single digit territory, given the low inflationary environment, concentrating distribution and consequent lack of pricing power. In this climate, procurement pressure continues and the increasing proportion of fee remuneration dampens revenue growth on cyclical upturns (and moderates on downturns). However, there continues to be significant opportunities in the area of outsourcing clients' marketing activities, consolidating client budgets and capitalising on competitive weaknesses. In addition, spending amongst the packaged goods, pharmaceutical, oil and energy, government (the government is the largest advertiser in the UK market) and price-value retail sectors, which remained relatively resilient in the recession of 2001 and 2002, have been buttressed by increased activity in previously recession-affected sectors like technology, financial services, media and entertainment and telecommunications.

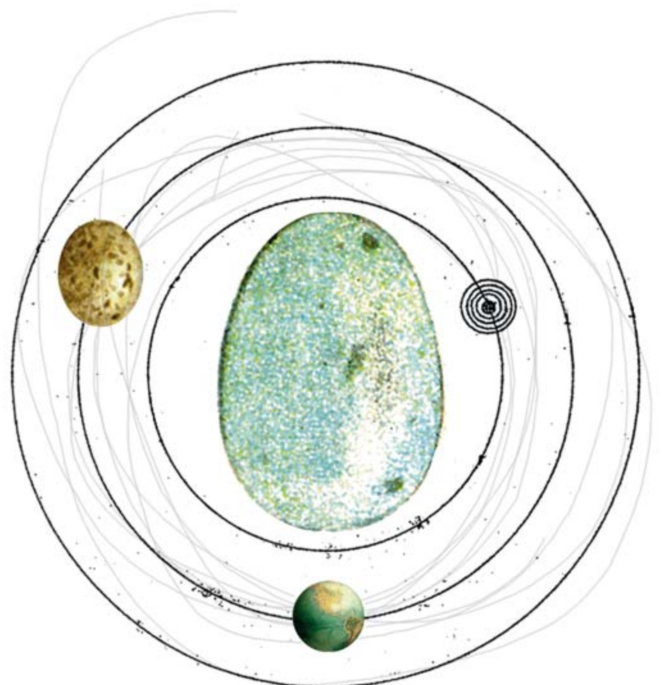
In the long-term, the outlook appears very favourable. Overcapacity of production in most sectors and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications, the continued strength of the US economy and the need to influence distribution, underpin the need for our clients to continue to differentiate their products and services both tangibly and intangibly. Moreover, the growth of the BRICs (Brazil, Russia, India and China) economies, will add significant opportunities in Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe. Advertising and marketing services expenditure as a proportion of gross national products should resume its growth and bust through the cyclical high established in 2000.

Given these short-term and long-term trends, your Company has three strategic priorities. In the short-term, having weathered the recession, to capitalise on the 2004 up-turn; in the medium-term, to continue to integrate successfully the mergers with Y&R and Grey; and finally, in the long-term, to continue to develop its businesses in the faster-growing geographical areas of Asia Pacific, Latin America, Africa and the Middle East, and Central and Eastern Europe and in the faster-growing functional areas of marketing services, particularly direct, internet, interactive and market research.

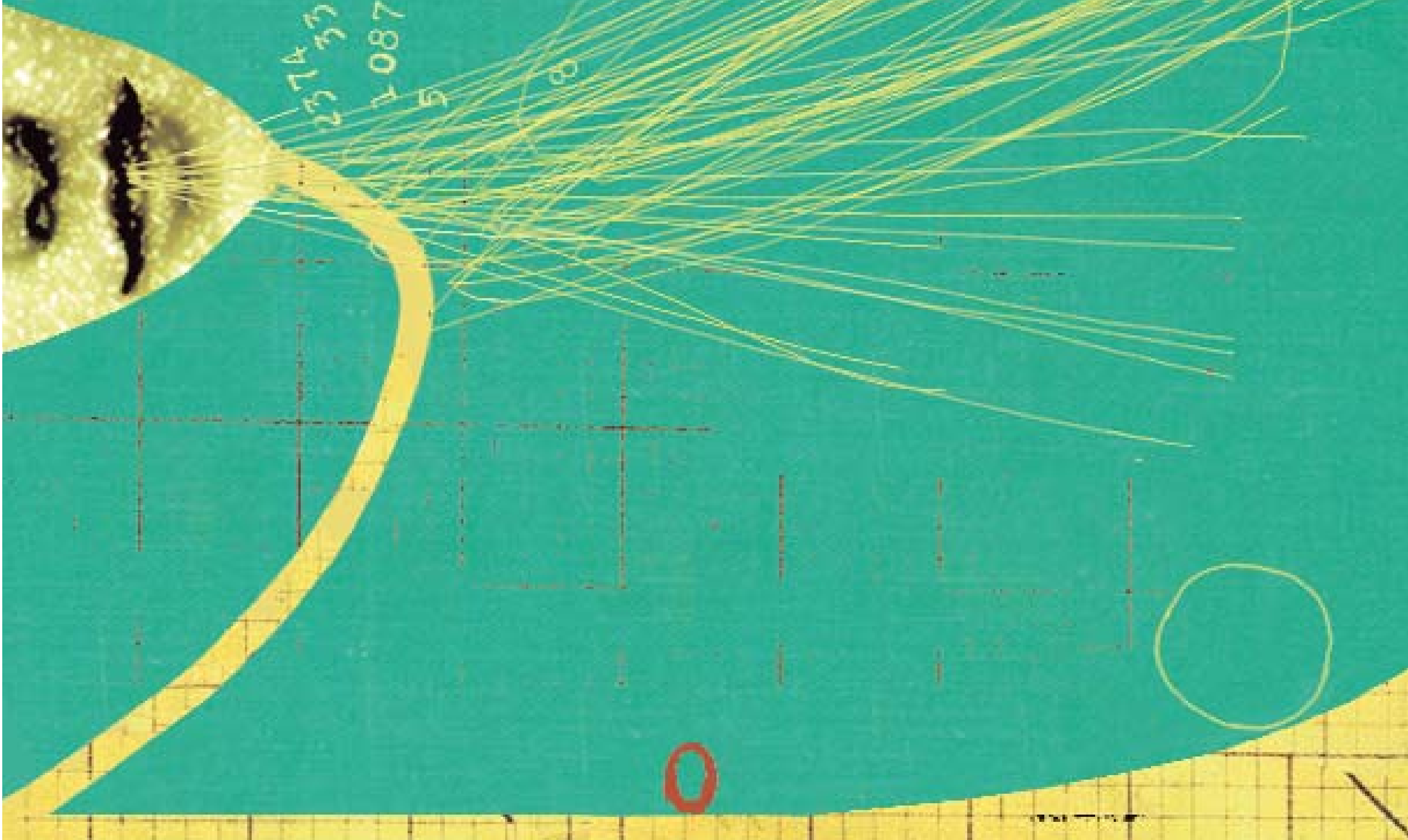
Incentive plans for 2005 will again focus more on operating profit growth than historically, in order to stimulate top-line growth, although objectives will continue to include operating margin improvement, improvement in staff costs to revenue ratios and qualitative Group objectives, including co-ordination, talent management and succession planning.

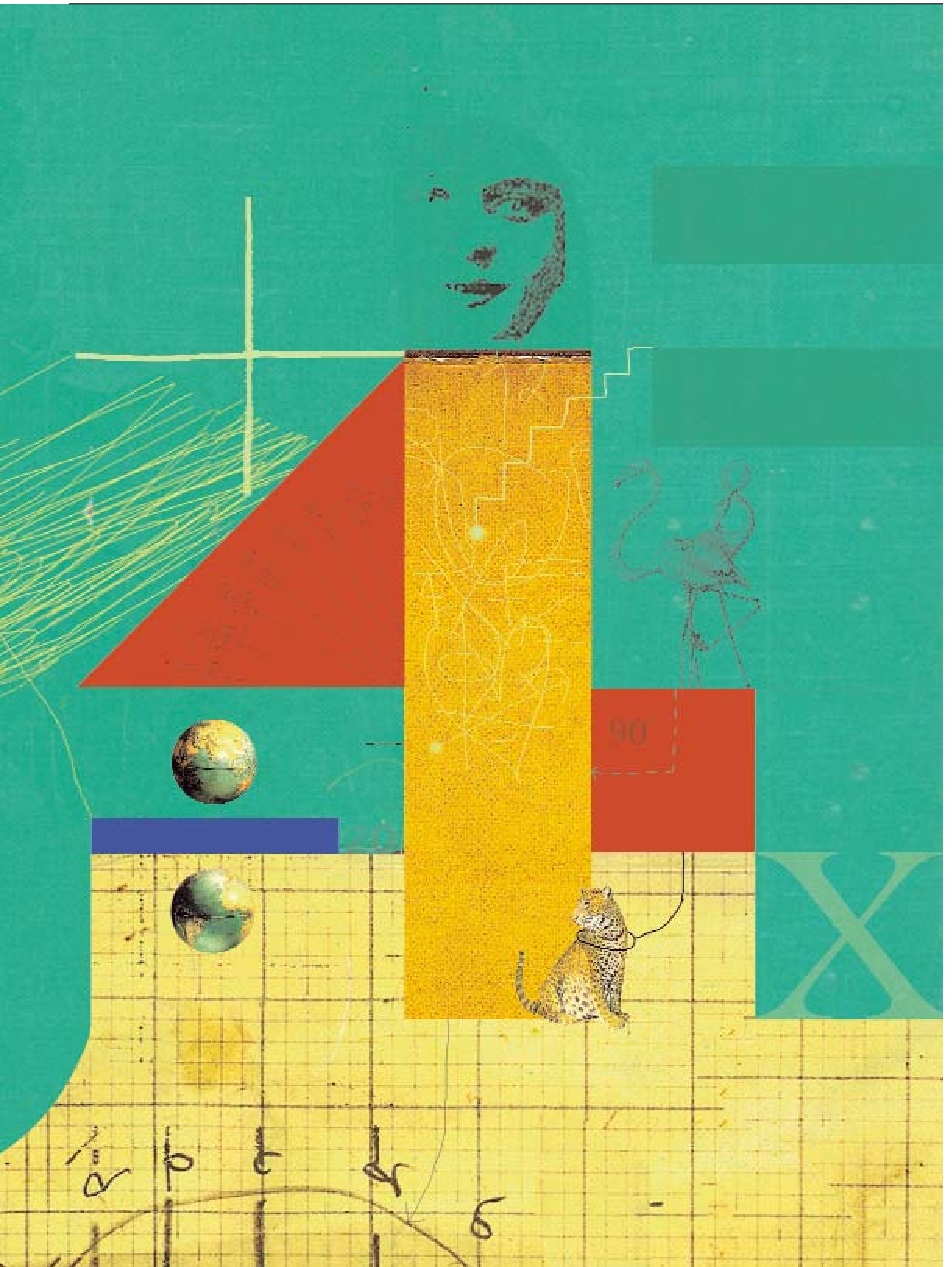
Paul Richardson
Group finance director

In connection with the provisions of the Private Securities Litigation Reform Act of 1995 (the 'Reform Act'), the Company may include forward-looking statements (as defined in the Reform Act) in oral or written public statements issued by or on behalf of the Company. These forward-looking statements may include, among other things, plans, objectives, projections and anticipated future economic performance based on assumptions and the like that are subject to risks and uncertainties. As such, actual results or outcomes may differ materially from those discussed in the forward-looking statements. Important factors which may cause actual results to differ include but are not limited to: the unanticipated loss of a material client or key personnel, delays or reductions in client advertising budgets, shifts in industry rates of compensation, government compliance costs or litigation, natural disasters or acts of terrorism, the Company's exposure to changes in the values of other major currencies (because a substantial portion of its revenues are derived and costs incurred outside of the UK) and the overall level of economic activity in the Company's major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In light of these and other uncertainties, the forward-looking statements included in this document should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved.



Our 2004 financial statements





Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom (UK GAAP). No changes have been made to the accounting policies since the preceding year other than the adoption of UITF 38 (Accounting for ESOP Trusts).

UITF 38 requires the classification of the cost of shares held by the Group's ESOP trusts as a deduction from share owners' funds; previously these were shown within fixed asset investments. Additionally, UITF 38 has changed the method of calculating the charge to the profit and loss account arising from certain of the Group's incentive plans, satisfied by the award of shares in the Group from one of the ESOPs. Previously, this charge was based on the cash cost to the Group of acquiring these shares in the open market, to be subsequently delivered to individuals on satisfactory completion of the performance criteria relating to the award. Under UITF 38, this charge should be based upon the intrinsic value (market value) of the shares at grant date.

Following the implementation of UITF 38, the Group has restated its consolidated profit and loss account for the year ended 31 December 2002 (to increase operating costs by £12.4 million), and its consolidated balance sheet for the years ended 31 December 2003 (to reduce net assets by £251.8 million) and 31 December 2002 (to reduce net assets by £280.7 million). There was no material impact on the profit and loss account for the year ended 31 December 2003. The consolidated cash flow statement for the years ended 31 December 2003 and 31 December 2002 has also been restated to show the purchase of own shares by the ESOP Trusts within financing activities. Previously these purchases were shown within capital expenditure and financial investment.

A summary of the Group's principal accounting policies is set out below.

A reconciliation to non-GAAP measures of performance is set out in note 28 to the financial statements on page 150 and 151.

Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

Basis of consolidation

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

Goodwill and intangible fixed assets

Intangible fixed assets comprise goodwill and certain acquired separable corporate brand names. These assets are carried at historic cost (at historic exchange rates) less any provisions for amortisation or impairment.

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 (Goodwill and intangible assets), for acquisitions made on or after 1 January 1998, goodwill has been capitalised as an intangible asset. Goodwill arising on acquisitions prior to that date was written off to reserves in accordance with the accounting standard then in force. On disposal or closure of a business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

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

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

Goodwill impairment is assessed by comparing the carrying value of goodwill to the net present value of future cashflows derived from the underlying assets using a projection period of up to five years for each income generating unit. After the projection period, growth rates of nominal GDP are generally assumed for each income generating unit. In certain instances, projection periods of up to 10 years may be used if management believes the longer period is more appropriate to assess the carrying value of goodwill and reflect the economic cycles that occur within the global markets in which the Group operates.

The financial statements depart from the specific requirement of companies legislation to amortise goodwill over a finite period in order to give a true and fair view. The directors consider this to be necessary for the reasons given above. Because of the indefinite life of these intangible assets, it is not possible to quantify its impact. However, for illustrative purposes only, if the Group were to change its accounting policy and regard all intangible assets as having a limited useful economic life, and the useful economic life

it chose was 20 years, then the resulting impact on the profit and loss account in 2004 would have been an amortisation charge of £260.0 million (2003: £250.0 million, 2002: £231.0 million) compared with a reported £42.5 million (2003: £33.0 million, 2002: £32.0 million).

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

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment with the exception of freehold land which is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:
Freehold buildings – 2% per annum;
Leasehold land and buildings – over the term of the lease or life of the asset, if shorter;
Fixtures, fittings and equipment – 10-33% per annum;
Computer equipment – 33% per annum.

Investments

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

Impairment of goodwill on associate undertakings, included within fixed asset investments, represents a permanent diminution of the carrying value of that goodwill. WPP considers the market value of listed investments and other business and economic factors in determining whether a permanent diminution of value has occurred.

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

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

Stocks and work in progress

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

Debtors

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

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements.

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

Debt

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

Turnover, cost of sales and revenue recognition

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

Advertising and Media investment management

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

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

Information, insight & consultancy

Revenue recognised in proportion to the level of service performed for market research contracts is based on proportional performance. In assessing contract performance, both input and output criteria are reviewed. Costs incurred are used as an objective input measure of performance. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. Costs incurred as a proportion of expected total costs is used as an initial proportional performance measure. This indicative proportional performance measure is always subsequently validated against other more subjective criteria (i.e., relevant output measures) such as the percentage of interviews completed, percentage of reports delivered to a client and the achievement of any project milestones stipulated in the contract. In the event of divergence between the objective and more subjective measures, the more subjective measures take precedence since these are output measures.

While most of the studies provided in connection with the Group's market research contracts are undertaken in response to an individual client's or group of clients' specifications, in certain instances a study may be developed as an off-the-shelf product offering sold to a broad client base. For these transactions, revenue is recognised when the product is delivered. Where the terms of transaction provide for licensing the product on a subscription basis, revenue is recognised over the subscription period on a straight-line basis or, if applicable, based on usage.

Substantially all services are provided on a fixed price basis. Pricing may also include a provision for a surcharge where the actual labour hours incurred in completing a project are significantly above the labour hours quoted in the project proposal. In instances where this occurs, the surcharge will be included in the total revenue base on which to measure proportional performance when the actual threshold is reached provided that collectibility is reasonable assured.

Public relations & public affairs and Branding & identity, Healthcare and Specialist communications

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

Current taxation

Corporate taxes are payable on taxable profits at current rates.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxation assessments in periods different from those in which they are recognised in the financial statements. A net deferred taxation asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Incentive plans

The Group's share based incentive plans are accounted for in accordance with Urgent Issues Task Force ('UITF') Abstract 17 'Employee Share Schemes' (Revised) and UITF Abstract 38 'Accounting for ESOP Trusts'. Where share based incentive plans are satisfied by the award of shares in the Group from one of the Group's ESOP Trusts, the relevant charge is based upon the intrinsic value (market value) of the shares at grant date, less any consideration to be received from the employee. The resulting cost is

charged to the profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment) an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and an appropriate provision made.

Pension costs

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

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

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

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

Finance leases

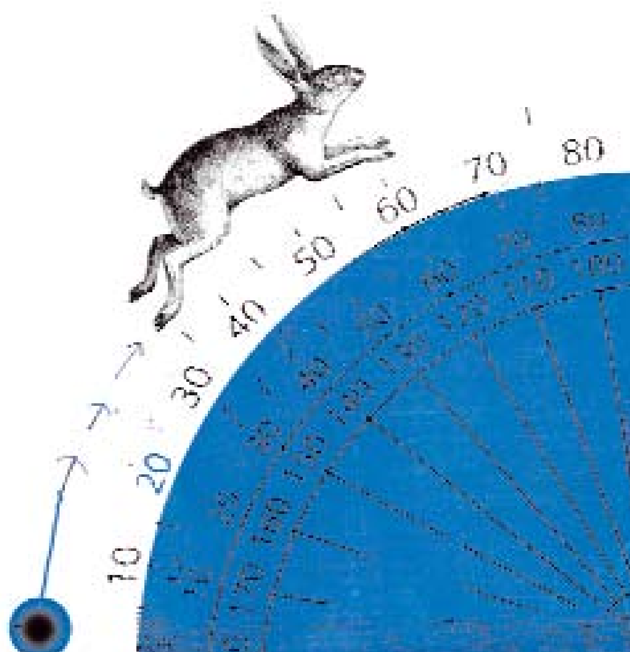
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases') the assets are treated as if they have been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased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

Operating leases

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

Translation of foreign currencies

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



Consolidated profit and loss account

For the year ended 31 December 2004

	Notes	2004 £m	2003 £m	2002 Restated[1] £m	2004 $m[5]	2003 $m[5]	2002 Restated[1] $m[5]
Turnover (billings)	1	**19,598.0**	18,621.3	18,028.7	**35,915.3**	30,457.0	27,108.0
Cost of sales		**(15,298.5)**	(14,515.3)	(14,120.4)	**(28,036.0)**	(23,741.2)	(21,231.4)
Revenue	1	**4,299.5**	4,106.0	3,908.3	**7,879.3**	6,715.8	5,876.6
Direct costs		**(225.1)**	(237.1)	(218.2)	**(412.5)**	(387.8)	(328.1)
Gross profit		**4,074.4**	3,868.9	3,690.1	**7,466.8**	6,328.0	5,548.5
Operating costs excluding goodwill amortisation and impairment	2	**(3,514.8)**	(3,375.9)	(3,252.3)	**(6,441.2)**	(5,521.6)	(4,890.1)
Goodwill amortisation and impairment – subsidiaries	2	**(75.0)**	(77.7)	(177.7)	**(137.5)**	(127.1)	(267.2)
Operating costs		**(3,589.8)**	(3,453.6)	(3,430.0)	**(6,578.7)**	(5,648.7)	(5,157.3)
Operating profit		**484.6**	415.3	260.1	**888.1**	679.3	391.2
Income from associates	15	**48.1**	40.5	30.0	**88.1**	66.2	45.1
Goodwill amortisation and impairment – associates	15	**(3.5)**	(34.3)	–	**(6.4)**	(56.1)	–
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs		**529.2**	421.5	290.1	**969.8**	689.4	436.3
Profits on disposal of fixed assets	4	**3.0**	–	9.2	**5.5**	–	13.8
Amounts written off fixed asset investments	4	**(5.0)**	–	(19.9)	**(9.2)**	–	(29.9)
Net interest payable and similar charges on net borrowings	5	**(61.2)**	(60.1)	(79.6)	**(112.1)**	(98.3)	(119.7)
Net interest charges on defined benefit pension schemes	5	**(9.5)**	(11.5)	(6.8)	**(17.4)**	(18.8)	(10.2)
Net interest payable and similar charges		**(70.7)**	(71.6)	(86.4)	**(129.5)**	(117.1)	(129.9)
Profit on ordinary activities before taxation		**456.5**	349.9	193.0	**836.6**	572.3	290.3
Taxation on profit on ordinary activities	6	**(140.2)**	(122.1)	(103.4)	**(256.9)**	(199.7)	(155.5)
Profit on ordinary activities after taxation		**316.3**	227.8	89.6	**579.7**	372.6	134.8
Minority interests		**(24.0)**	(19.4)	(14.0)	**(44.0)**	(31.7)	(21.1)
Profit attributable to ordinary share owners		**292.3**	208.4	75.6	**535.7**	340.9	113.7
Ordinary dividends	7	**(92.0)**	(76.8)	(62.5)	**(168.6)**	(125.6)	(94.0)
Retained profit for the year transferred to reserves		**200.3**	131.6	13.1	**367.1**	215.3	19.7
Headline PBIT[2]	1	**607.7**	533.5	467.8	**1,113.7**	872.6	703.5
Headline PBIT[2] margin		**14.1%**	13.0%	12.0%	**14.1%**	13.0%	12.0%
Headline PBT[2]		**546.5**	473.4	388.2	**1,001.6**	774.3	583.8
Headline earnings per share[3]	8						
Basic earnings per ordinary share		**33.6p**	29.8p	24.4p	**61.6¢**	48.7¢	36.7¢
Diluted earnings per ordinary share		**32.3p**	29.0p	23.8p	**59.2¢**	47.4¢	35.8¢
Standard earnings per share	8						
Basic earnings per ordinary share		**25.7p**	18.7p	6.8p	**47.1¢**	30.6¢	10.2¢
Diluted earnings per ordinary share		**25.0p**	18.2p	6.7p	**45.8¢**	29.8¢	10.1¢
Headline earnings per ADR[3,4]							
Basic earnings per ADR		**168.0p**	149.0p	122.0p	**$3.08**	$2.43	$1.83
Diluted earnings per ADR		**161.5p**	145.0p	119.0p	**$2.96**	$2.37	$1.79
Standard earnings per ADR[4]							
Basic earnings per ADR		**128.5p**	93.5p	34.0p	**$2.35**	$1.53	$0.51
Diluted earnings per ADR		**125.0p**	91.0p	33.5p	**$2.29**	$1.49	$0.50

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

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

No operations with a material impact on the Group's results were acquired or discontinued during 2004, 2003 or 2002. In 2004, acquisitions contributed revenue of £63.6 million, operating profit of £12.9 million and profit on ordinary activities before interest, taxation, fixed asset gains and write-downs of £18.9 million.

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs.

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

The calculation of Headline PBIT and Headline PBT is set out in note 28.

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

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

[5] The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. For illustrative purposes only, the financial statements set out on this page and page 136 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (2004: $1.8326 = £1, 2003: $1.6356 = £1, 2002: $1.5036 = £1) and the rate in effect on 31 December for the balance sheet (2004: $1.9158 = £1, 2003: $1.7833 = £1, 2002: $1.6100 = £1). This translation is unaudited and should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated. The consolidated euro profit and loss account and balance sheet have been set out on pages 160 and 161 for illustrative purposes only.

Consolidated cash flow statement

For the year ended 31 December 2004

	Notes	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Operating profit		**484.6**	415.3	260.1
Depreciation		**103.4**	127.5	116.6
Goodwill amortisation and impairment charges		**75.0**	77.7	177.7
Movements in working capital and provisions	10	**25.1**	320.6	222.9
Loss on sale of tangible fixed assets		**1.9**	0.9	2.6
Net cash inflow from operating activities		**690.0**	942.0	779.9
Dividends received from associates		**18.5**	15.6	9.4
Returns on investments and servicing of finance	11	**(73.3)**	(38.3)	(78.2)
UK and overseas tax paid		**(101.3)**	(93.6)	(85.0)
Capital expenditure and financial investment	11	**(86.3)**	(85.2)	(90.3)
Acquisitions and disposals	11	**(208.9)**	(344.5)	(277.3)
Equity dividends paid		**(81.7)**	(67.0)	(55.6)
Net cash inflow before management of liquid resources and financing		**157.0**	329.0	202.9
Management of liquid resources		**157.8**	(211.4)	(113.6)
Net cash inflow from financing	11	**52.8**	116.8	146.3
Increase in cash and overdrafts for the year		**367.6**	234.4	235.6
Translation difference		**(44.6)**	(19.3)	(0.4)
Balance of cash and overdrafts at beginning of year		**716.0**	500.9	265.7
Balance of cash and overdrafts at end of year		**1,039.0**	716.0	500.9

	Notes	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Reconciliation of net cash flow to movement in net debt:				
Increase in cash and overdrafts for the year		**367.6**	234.4	235.6
Cash (inflow)/outflow from (decrease)/increase in liquid resources		**(157.8)**	211.4	113.6
Cash inflow from increase in debt financing		**(124.2)**	(24.3)	(201.2)
Debt acquired		**(9.6)**	–	–
Other movements		**(8.2)**	(9.4)	(8.8)
Translation difference		**(6.7)**	(50.9)	23.2
Movement in net debt in the year	9	**61.1**	361.2	162.4
Net debt at beginning of year	9	**(361.5)**	(722.7)	(885.1)
Net debt at end of year	9	**(300.4)**	(361.5)	(722.7)

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

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2004

	Notes	2004 £m	2003 £m	2002 Restated[1] £m
Profit for the financial year		**292.3**	208.4	75.6
Exchange adjustments on foreign currency net investments	25	**52.1**	74.8	82.3
Actuarial (loss)/gain on defined benefit pension schemes in accordance with FRS 17 (Retirement Benefits)	25	**(18.2)**	14.0	(52.8)
Deferred tax on defined benefit pension schemes	25	**3.3**	10.0	–
Total recognised gains and losses relating to the year		**329.5**	307.2	105.1

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

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Consolidated balance sheet
As at 31 December 2004

	Notes	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m	2004 $m	2003 Restated[1] $m	2002 Restated[1] $m
Fixed assets							
Intangible assets							
Corporate brands	13	**950.0**	950.0	950.0	**1,820.0**	1,694.1	1,529.5
Goodwill	13	**4,845.7**	4,710.3	4,407.0	**9,283.4**	8,399.9	7,095.3
Tangible assets	14	**333.8**	344.6	377.3	**639.5**	614.5	607.5
Investments	15	**389.3**	381.5	316.5	**745.8**	680.3	509.5
		6,518.8	6,386.4	6,050.8	**12,488.7**	11,388.8	9,741.8
Current assets							
Stocks and work in progress	16	**220.6**	269.6	291.6	**422.6**	480.8	469.5
Debtors	17	**2,677.6**	2,394.5	2,256.4	**5,129.7**	4,270.1	3,632.8
Trade debtors within working capital facility:							
Gross debts	18	**545.7**	507.5	385.7	**1,045.5**	905.0	621.0
Non-returnable proceeds	18	**(261.0)**	(280.4)	(217.4)	**(500.0)**	(500.0)	(350.0)
		284.7	227.1	168.3	**545.5**	405.0	271.0
Current asset investments (short-term bank and escrow deposits)	9	**244.0**	401.8	190.4	**467.5**	716.5	306.5
Cash at bank and in hand		**1,372.0**	1,018.1	689.1	**2,628.5**	1,815.6	1,109.5
		4,798.9	4,311.1	3,595.8	**9,193.8**	7,688.0	5,789.3
Creditors: amounts falling due within one year (including convertible bonds)	19	**(5,220.0)**	(4,902.0)	(4,120.1)	**(10,000.5)**	(8,741.7)	(6,633.4)
Net current liabilities		**(421.1)**	(590.9)	(524.3)	**(806.7)**	(1,053.7)	(844.1)
Total assets less current liabilities		**6,097.7**	5,795.5	5,526.5	**11,682.0**	10,335.1	8,897.7
Creditors: amounts falling due after more than one year (including convertible bonds)	20	**(1,852.6)**	(1,691.1)	(1,837.5)	**(3,549.2)**	(3,015.7)	(2,958.4)
Provisions for liabilities and charges	21	**(91.2)**	(99.7)	(70.5)	**(174.7)**	(177.8)	(113.5)
Net assets excluding pension provision		**4,153.9**	4,004.7	3,618.5	**7,958.1**	7,141.6	5,825.8
Pension provision	22	**(187.8)**	(188.9)	(184.8)	**(359.8)**	(336.9)	(297.5)
Net assets including pension provision		**3,966.1**	3,815.8	3,433.7	**7,598.3**	6,804.7	5,528.3
Capital and reserves							
Called up share capital	24, 25	**118.5**	118.7	115.7	**227.0**	211.7	186.3
Share premium account	25	**1,002.2**	955.3	836.6	**1,920.0**	1,703.6	1,346.9
Shares to be issued	25	**49.9**	130.0	195.7	**95.6**	231.8	315.1
Merger reserve	25	**2,920.6**	2,921.0	2,869.3	**5,595.3**	5,209.0	4,619.6
Other reserves	25	**(125.5)**	(178.9)	(254.3)	**(240.4)**	(319.0)	(409.4)
Own shares[2]	25	**(277.7)**	(307.8)	(312.2)	**(532.0)**	(548.9)	(502.7)
Profit and loss account	25	**226.5**	129.4	(55.9)	**433.9**	230.7	(90.0)
Equity share owners' funds		**3,914.5**	3,767.7	3,394.9	**7,499.4**	6,718.9	5,465.8
Minority interests		**51.6**	48.1	38.8	**98.9**	85.8	62.5
Total capital employed		**3,966.1**	3,815.8	3,433.7	**7,598.3**	6,804.7	5,528.3

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

Notes
[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).
[2] Investments in own shares held by the ESOP Trusts.

Signed on behalf of the Board on 10 May 2005:

Sir Martin Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated financial statements
For the year ended 31 December 2004

1 Segment information

The Group is a leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services.

These services include Advertising and Media investment management, Information, insight & consultancy, Public relations & public affairs, and Branding & identity, Healthcare and Specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the UK and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions.

Contributions by geographical area were as follows:

	2004 £m	Change %	2003 £m	Change %	2002 Restated[1] £m
Turnover					
North America	**7,576.3**	4.1	7,280.3	(9.1)	8,010.3
UK	**1,973.1**	5.2	1,875.9	11.0	1,689.9
Continental Europe	**6,312.4**	2.5	6,159.0	11.5	5,525.8
Asia Pacific, Latin America, Africa & Middle East	**3,736.2**	13.0	3,306.1	18.0	2,802.7
	19,598.0	5.2	18,621.3	3.3	18,028.7
Revenue					
North America	**1,651.9**	(1.6)	1,678.7	(2.6)	1,723.2
UK	**728.5**	9.6	664.9	7.4	619.2
Continental Europe	**1,134.8**	5.1	1,079.4	16.1	929.6
Asia Pacific, Latin America, Africa & Middle East	**784.3**	14.8	683.0	7.3	636.3
	4,299.5	4.7	4,106.0	5.1	3,908.3
Headline PBIT[2]					
North America	**262.6**	6.0	247.8	6.0	233.7
UK	**81.9**	14.1	71.8	9.6	65.5
Continental Europe	**141.2**	15.9	121.8	25.8	96.8
Asia Pacific, Latin America, Africa & Middle East	**122.0**	32.5	92.1	28.3	71.8
	607.7	13.9	533.5	14.0	467.8

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

Contributions by operating sector were as follows:

	2004 £m	Change %	2003 £m	Change %	2002 Restated[1] £m
Turnover					
Advertising and Media investment management[3]	**16,115.6**	6.0	15,201.7	2.4	14,848.6
Information, insight & consultancy	**794.8**	3.4	769.0	7.6	714.5
Public relations & public affairs[3]	**591.9**	(0.8)	596.4	(0.3)	598.4
Branding & identity, Healthcare and Specialist communications	**2,095.7**	2.0	2,054.2	10.0	1,867.2
	19,598.0	5.2	18,621.3	3.3	18,028.7
Revenue					
Advertising and Media investment management[3]	**1,985.3**	3.9	1,911.2	7.0	1,786.9
Information, insight & consultancy	**744.8**	5.9	703.6	5.9	664.7
Public relations & public affairs[3]	**445.2**	(1.3)	450.9	(4.2)	470.7
Branding & identity, Healthcare and Specialist communications	**1,124.2**	8.1	1,040.3	5.5	986.0
	4,299.5	4.7	4,106.0	5.1	3,908.3
Headline PBIT[2]					
Advertising and Media investment management[3]	**319.0**	9.4	291.7	9.9	265.5
Information, insight & consultancy	**73.9**	47.8	50.0	7.8	46.4
Public relations & public affairs[3]	**62.4**	6.1	58.8	21.2	48.5
Branding & identity, Healthcare and Specialist communications	**152.4**	14.6	133.0	23.8	107.4
	607.7	13.9	533.5	14.0	467.8

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

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

[3] In 2004 certain of the Group's public relations and public affairs businesses, which were historically included in Advertising and Media investment management have been moved to Public relations & public affairs. As a result the comparative figures for both Advertising and Media investment management and Public relations & public affairs have been restated to reflect this change.

2 Operating costs

	2004 £m	2003 £m	2002 Restated[1] £m
Total staff costs (note 3)	**2,502.4**	2,362.5	2,242.4
Establishment costs	**327.6**	324.6	329.4
Other operating expenses (net)	**682.9**	687.9	677.9
Loss on sale of tangible fixed assets	**1.9**	0.9	2.6
Operating costs excluding goodwill amortisation and impairment	**3,514.8**	3,375.9	3,252.3
Goodwill amortisation and impairment – subsidiaries	**75.0**	77.7	177.7
Total operating costs	**3,589.8**	3,453.6	3,430.0
Operating expenses include:			
Depreciation of tangible fixed assets (note 14)	**103.4**	127.5	116.6
Goodwill amortisation – subsidiaries (note 13)	**39.0**	29.5	32.0
Goodwill impairment – subsidiaries (note 13)	**36.0**	48.2	145.7
Operating lease rentals:			
Land and buildings	**205.1**	208.0	207.4
Plant and machinery	**37.5**	40.9	45.7
	242.6	248.9	253.1

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

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

	2004 £m	2003 £m	2002[1] £m
Auditors' remuneration:			
Services as auditors	**8.4**	7.3	5.4
Preliminary Sarbanes-Oxley related services	**3.8**	0.4	–
Further assurance services[2, 3]	**3.7**	2.4	2.2
	15.9	10.1	7.6
Non-audit services[3]:			
Tax advisory	**3.4**	2.8	2.7
Consulting	**0.6**	0.9	0.9
	19.9	13.8	11.2

Notes

[1] Deloitte & Touche LLP replaced Arthur Andersen as auditors in 2002. The 2002 figures above include amounts paid to both Deloitte & Touche LLP and Arthur Andersen.

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

[3] Further assurance and non-audit services require pre-approval by the Audit committee.

Audit fees paid to the auditors include £0.5 million (2003: £0.5 million, 2002: £0.5 million) in respect of the parent company. Auditors other than Deloitte & Touche LLP or Arthur Andersen were paid £0.5 million (2003: £0.5 million, 2002: £0.2 million). In 2004 fees paid to auditors in respect of due diligence and transaction services, included in further assurance services above, of £0.9 million (2003: £0.5 million, 2002: £1.5 million) were capitalised.

Depreciation segment information

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

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management[1]	**49.3**	58.4	51.2
Information, insight & consultancy	**18.6**	19.6	20.0
Public relations & public affairs[1]	**10.3**	13.9	15.6
Branding & identity, Healthcare and Specialist communications	**25.2**	35.6	29.8
	103.4	127.5	116.6

Notes

[1] In 2004 certain of the Group's public relations and public affairs businesses, which were historically included in Advertising and Media investment management have been moved to Public relations & public affairs. As a result the comparative figures for both Advertising and Media investment management and Public relations & public affairs have been restated to reflect this change.

2 Operating Costs (continued)

Goodwill amortisation segment information

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

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	**17.8**	1.1	0.8
Information, insight & consultancy	**11.3**	12.6	14.9
Public relations & public affairs	**1.0**	2.2	1.2
Branding & identity, Healthcare and Specialist communications	**8.9**	13.6	15.1
	39.0	29.5	32.0

Goodwill impairment segment information

The impact of the current economic climate on the performance of certain of the Group's businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill. Note 13 gives further information on the Group's 2004 impairment review.

The following table shows goodwill impairment attributable to each of the Group's operating sectors:

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	**8.1**	–	12.5
Information, insight & consultancy	**3.4**	35.1	70.3
Public relations & public affairs	**17.8**	–	8.5
Branding & identity, Healthcare and Specialist communications	**6.7**	13.1	54.4
	36.0	48.2	145.7

Minimum committed annual rentals

Amounts payable in 2005 under the foregoing leases will be as follows:

	Plant and machinery			Land and buildings		
	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
In respect of operating leases which expire:						
– within one year	**6.9**	11.1	8.8	**24.0**	18.4	20.5
– within two to five years	**19.3**	21.1	22.2	**74.0**	86.3	88.9
– after five years	**1.5**	2.0	1.8	**75.9**	76.0	73.9
	27.7	34.2	32.8	**173.9**	180.7	183.3

Future minimum annual amounts payable under all lease commitments in existence at 31 December 2004 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
2005	201.6	(18.8)	182.8
2006	229.9	(15.1)	214.8
2007	139.2	(13.6)	125.6
2008	119.3	(12.5)	106.8
2009	109.7	(7.9)	101.8
Later years	232.5	(41.2)	191.3
	1,032.2	(109.1)	923.1

3 Our people

Our staff numbers averaged 57,788 against 51,604 in 2003, including acquisitions. Their geographical distribution was as follows:

	2004 Number	2003 Number	2002 Number
North America	**17,271**	14,755	14,687
UK	**7,069**	6,806	6,783
Continental Europe	**14,793**	13,675	13,908
Asia Pacific, Latin America, Africa & Middle East	**18,655**	16,368	15,039
	57,788	51,604	50,417

Their operating sector distribution was as follows:

	2004 Number	2003 Number	2002 Number
Advertising and Media investment management	**29,419**	26,878	25,791
Information, insight & consultancy	**9,482**	7,161	6,223
Public relations & public affairs	**5,136**	4,986	5,190
Branding & identity, Healthcare and Specialist communications	**13,751**	12,579	13,213
	57,788	51,604	50,417

At the end of 2004 staff numbers were 59,932 (2003: 54,324, 2002: 49,439).

As at 31 March 2005, following the acquisition of Grey, the Group had approximately 71,000 employees. Including employees of associated undertakings, this figure is approximately 84,000.

3 Our people (continued)

Total staff costs were made up as follows:

	2004 £m	2003 £m	2002 Restated[1] £m
Wages and salaries	**1,718.4**	1,644.5	1,604.7
Payments and provisions charged under short- and long-term incentive plans	**160.6**	130.4	102.5
Social security costs	**210.0**	198.2	181.7
Pension costs (note 22)	**64.4**	64.9	60.6
Other staff costs	**349.0**	324.5	292.9
	2,502.4	2,362.5	2,242.4
Staff cost to revenue ratio	**58.2%**	57.5%	57.4%
Staff cost to gross profit ratio	**61.4%**	61.1%	60.8%

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Directors' emoluments are disclosed on page 111.

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

Disposal of freehold properties and fixed asset investments

The profits on disposal of fixed assets comprise:

	2004 £m	2003 £m	2002 £m
Net profits on disposal of investments	**3.0**	–	5.6
Profits on disposal of freehold properties	**–**	–	3.6
	3.0	–	9.2

In 2004, profits were realised on the disposal of certain minority investments in marketing services companies in North America.

In 2002 profits were realised on the disposal of two freehold properties in the UK and on a number of minority investments in new media and marketing services companies in the US and the UK.

Write-down of fixed asset investments

Amounts written off fixed asset investments of £5.0 million (2003: £nil, 2002: £19.9 million) relate to write-downs on certain non-core minority investments in new media companies and other technology ventures.

These transactions did not have a material effect on the Group's tax charge or minority interest.

Other items

The Group has released £14.0 million (2003: £12.0 million, 2002: £13.0 million) to operating profit relating to excess provisions established in respect of acquisitions completed prior to 2003. At the same time, the Group includes within operating costs charges for one-off costs, severance and restructuring charges, including those resulting from integrating acquisitions. For this reason, the Group considers that the combination of the above releases and charges, when taken together does not materially impact the Group's quality of earnings.

5 Net interest payable and similar charges

	2004 £m	2003 £m	2002 £m
Interest payable on bank loans and overdrafts	**58.8**	33.0	40.1
Interest payable on other loans (including corporate and convertible bonds)	**53.6**	54.8	67.7
Interest payable of associate undertakings	**2.6**	2.0	1.8
Total interest payable	**115.0**	89.8	109.6
Interest receivable of associate undertakings	**(2.5)**	(3.0)	(2.2)
Gain on purchase of Eurobond	**–**	–	(1.2)
Interest receivable	**(56.4)**	(30.8)	(31.0)
Net interest payable	**56.1**	56.0	75.2
Charges in respect of working capital facilities	**5.1**	4.1	4.4
Net interest payable and similar charges on net borrowings	**61.2**	60.1	79.6
Net interest charges on defined benefit pension schemes (note 22)	**9.5**	11.5	6.8
	70.7	71.6	86.4

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

The majority of the Group's long-term debt is represented by $950 million of USD bonds at a weighted average interest rate of 6.14% (prior to any interest rate swaps or cross-currency swaps), €650 million of Eurobonds at 6% (prior to any interest rate or currency swaps), £450 million of convertible bond at 3.07% (including redemption premium accrual and prior to any interest rate or cross-currency swaps) and $287.5 million of convertible bonds at a rate of 3%.

Average borrowings under the Syndicated Revolving Credit Facilities (note 9) amounted to $79.4 million at an average interest rate of 1.5% (2003: 1.75%, 2002: 2.6%) inclusive of margin.

5 Net interest payable and similar charges (continued)

Derivative financial instruments

Interest rate swaps	2004 €	2004 $	2003 €	2003 $	2002 €	2002 $
Notional principal amount	**€400m**	**$400m**	€400m	–	€400m	$200m
Average pay rate	**EURIBOR +2.19%**	**LIBOR +0.69%**	EURIBOR +2.19%	n/a	EURIBOR +0.81%	6.22%
Average receive rate	**6.0%**	**5.88%**	6.0%	n/a	6.0%	LIBOR
Average term	**42 months**	**115 months**	54 months	n/a	67 months	0.4 months
Latest maturity date	**Jun 2008**	**Jun 2014**	Jun 2008	n/a	Jun 2008	Jan 2003

Cross currency swaps	2004 £/€	2004 £/$	2004 $/€	2004 £/Yen
Currency principal receivable	£110.256m	£52.669m	$278.3m	£47.934m
Currency principal payable	€170m	$75m	€228m	Yen 9,000m
Currency rate payable	EURIBOR –0.61%	LIBOR –2.07%	LIBOR +0.6875%	FIXED –
Currency rate receivable	4.89%	3.43%	EURIBOR +0.73%	3.43%

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

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

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

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

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

The fair value of derivatives is disclosed in note 23. The Group's policy on derivatives and financial instruments is discussed in the operating and financial review on page 124.

6 Tax on profit on ordinary activities

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

	2004 £m	2003 £m	2002 Restated[1] £m
Corporation tax at 30% (2003: 30%, 2002: 30%)	**22.3**	22.7	22.3
Deferred taxation	**(9.7)**	(8.7)	(1.5)
Overseas taxation	**109.7**	93.5	71.5
Tax on profits of associate companies	**17.9**	14.6	11.1
	140.2	122.1	103.4
Effective tax rate on profit before tax	**30.7%**	34.9%	53.6%
Effective tax rate on headline profit before tax (note 28)	**25.7%**	25.8%	26.6%
Total current tax	**132.0**	116.2	93.8
Total deferred tax	**(9.7)**	(8.7)	(1.5)
Share of associates tax	**17.9**	14.6	11.1
Total tax on profits on ordinary activities	**140.2**	122.1	103.4
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%, 2002: 30%)	**122.5**	92.8	52.6
Effects of:			
Utilisation of tax losses brought forward	**(5.8)**	(4.7)	(1.3)
Unused tax losses carried forward	**10.6**	12.6	11.1
Y&R acquisition attributes	**(29.7)**	(49.3)	(27.6)
Differences between UK and overseas statutory tax rates	**18.0**	35.5	17.3
Permanent differences between expenditures charged in arriving at income and expenditure allowed for tax purposes	**16.4**	29.3	41.7
Total current tax	**132.0**	116.2	93.8

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

7 Ordinary dividends

	2004	2003	2002	2004	2003	2002
Per share	Pence per share			**£m**	£m	£m
Interim dividend paid	**2.50p**	2.08p	1.73p	**29.4**	24.6	20.0
Final dividend proposed	**5.28p**	4.40p	3.67p	**62.6**	52.2	42.5
	7.78p	6.48p	5.40p	**92.0**	76.8	62.5
Per ADR[1]	Cents per ADR			**$m**	$m	$m
Interim dividend paid	**22.9¢**	17.0¢	13.0¢	**53.9**	40.2	30.1
Final dividend proposed	**48.4¢**	36.0¢	27.6¢	**114.7**	85.4	63.9
	71.3¢	53.0¢	40.6¢	**168.6**	125.6	94.0

Notes

[1] These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown on page 134. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

8 Earnings per ordinary share

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

Headline basic earnings per share have been calculated using earnings of £292.3 million (2003: £208.4 million, 2002: £75.6 million), and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £90.0 million (2003: £123.5 million, 2002: £195.2 million). The weighted average number of shares in issue used was 1,136,132,685 shares (2003: 1,115,319,576 shares, 2002: 1,110,556,878 shares).

Headline diluted earnings per share have been calculated using earnings of £304.5 million (2003: £208.4 million, 2002: £75.6 million) and adjusted for goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes of £90.0 million (2003: £123.5 million, 2002: £195.2 million). The weighted average number of shares in issue used was 1,219,588,084 shares (2003: 1,145,014,508 shares, 2002: 1,136,548,459 shares). This takes into account potentially issuable ordinary shares arising from the exercise of employee share options, certain incentive schemes and convertible debt where these are expected to dilute earnings per share. For the year ended 31 December 2004, both the $287.5 million convertible loan rate and the £450 million convertible bond were dilutive and earnings were consequently adjusted by £12.2 million. For the years ended 31 December 2003 and 31 December 2002, both the $287.5 million convertible loan note and the £450 million convertible bond were accretive to earnings per share and therefore excluded from the calculation.

Standard basic earnings per share have been calculated using earnings of £292.3 million (2003: £208.4 million, 2002: £75.6 million) and weighted average shares in issue during the period of 1,136,132,685 shares (2003: 1,115,319,576 shares, 2002: 1,110,556,878 shares).

Standard diluted earnings per share have been calculated using earnings of £304.5 million (2003: £208.4 million, 2002: £75.6 million). The weighted average number of shares used was 1,219,588,084 shares (2003: 1,145,014,508 shares, 2002: 1,136,548,459 shares). This takes into account potentially issuable ordinary shares arising from the exercise of employee share options, certain incentive schemes and convertible debt where these are expected to dilute earnings per share. For the year ended 31 December 2004, both the $287.5 million convertible loan rate and the £450 million convertible bond were dilutive and earnings were consequently adjusted by £12.2 million. For the years ended 31 December 2003 and 31 December 2002, both the $287.5 million convertible loan note and the £450 million convertible bond were accretive to earnings per share and therefore excluded from the calculation.

At 31 December 2004 there were 1,185,338,038 ordinary shares in issue.

9 Sources of finance

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

	2004 Shares £m	2004 Debt £m	2003 Shares £m	2003 Debt £m	2002 Shares £m	2002 Debt £m
Analysis of changes in financing						
Beginning of year	**1,074.0**	**1,479.3**	952.3	1,414.0	920.2	1,227.6
Shares issued in respect of acquisitions	**–**	**–**	0.5	–	0.2	–
Share placement	**–**	**–**	100.2	–	–	–
Share cancellations	**(1.3)**	**–**	(0.6)	–	(0.2)	–
Share issue costs paid	**–**	**–**	(1.1)	–	(1.0)	–
Other issues of share capital	**48.0**	**–**	22.7	–	33.1	–
Increase in drawings on bank loans and convertible bonds	**–**	**128.6**	–	22.0	–	210.7
Debt acquired	**–**	**9.6**	–	3.5	–	–
Net amortisation/(payment) of financing costs included in net debt	**–**	**3.8**	–	8.3	–	(0.7)
Exchange adjustments on long-term borrowings	**–**	**(37.9)**	–	31.5	–	(23.6)
End of year	**1,120.7**	**1,583.4**	1,074.0	1,479.3	952.3	1,414.0

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

Shares
At 31 December 2004, the Company's share base was entirely composed of ordinary equity share capital and share premium of £1,120.7 million (2003: £1,074.0 million, 2002: £952.3 million), further details of which are disclosed in notes 24 and 25.

9 Sources of finance (continued)

Debt

USA bond During 2004, the Group issued $650 million of 5.875% bonds due 2014 and also has in issue $200 million of 6.625% bonds due 2005 and $100 million of 6.875% bonds due 2008.

Eurobond The Group has in issue €650 million of 6.0% bonds due 2008 and during 2004, repaid €350 million of 5.125% bonds.

Revolving Credit Facilities The Group's debt is also funded by a five-year $750 million Revolving Credit Facility due September 2006. The Group's syndicated borrowings drawn down, predominantly in US dollars, under this agreement averaged $79.4 million (2003: $258.3 million, 2002: $388.7 million). The Group had available undrawn committed facilities of £391 million at 31 December 2004 (2003: £421 million, 2002: £466 million).

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

Convertible bonds
In October 2000, with the purchase of Young & Rubicam Inc, the Group acquired $287.5 million of 3% convertible bonds which were redeemed on their due date, 15 January 2005.

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

Current asset investments/liquid resources
At 31 December 2004, the Group had £244.0 million (2003: £401.8 million, 2002: £190.4 million) of cash deposits with a maturity greater than 24 hours.

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

	2004 £m	Change[1] in year £m	2003 £m	Change[1] in year £m	2002 £m
Debt					
Within one year	**(264.8)**	**(14.5)**	(250.3)	(238.8)	(11.5)
Between one and two years	**(2.5)**	**270.6**	(273.1)	(45.7)	(227.4)
Between two and three years	**(453.3)**	**(453.3)**	–	302.3	(302.3)
Between three and four years	**(510.9)**	**(67.5)**	(443.4)	(443.4)	–
Between four and five years	**–**	**512.5**	(512.5)	(92.4)	(420.1)
Over five years	**(351.9)**	**(351.9)**	–	452.7	(452.7)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	**(1,583.4)**	**(104.1)**	(1,479.3)	(65.3)	(1,414.0)
Short-term overdrafts – within one year	**(333.0)**	**(30.9)**	(302.1)	(113.9)	(188.2)
Debt financing	**(1,916.4)**	**(135.0)**	(1,781.4)	(179.2)	(1,602.2)
Cash at bank and in hand	**1,372.0**	**353.9**	1,018.1	329.0	689.1
Current asset investments	**244.0**	**(157.8)**	401.8	211.4	190.4
Net debt	**(300.4)**	**61.1**	(361.5)	361.2	(722.7)

Notes
[1] Includes £9.6 million (2003: £3.5 million, 2002: £nil) of debt, £0.5 million (2003: £6.4 million, 2002: £2.1 million) of short-term overdrafts and £16.4 million (2003: £53.0 million, 2002: £64.9 million) of cash at bank acquired.

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

2004 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	437.2	5.19%	n/a	41
	– floating	363.7[2]	n/a	LIBOR	n/a
£	– fixed	239.1	1.94%	n/a	28
€	– fixed	176.9	6.00%	n/a	42
	– floating	564.6	n/a	EURIBOR	n/a
¥	– fixed	45.8	(1.29%)	n/a	28
Other		17.1	n/a	Various	n/a
		1,844.4			

2003 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	329.5[2]	4.89%	n/a	22
	– floating	322.5[2]	n/a	LIBOR	n/a
£	– fixed	318.3	2.82%	n/a	40
€	– fixed	422.6	5.49%	n/a	26
	– floating	316.9	n/a	EURIBOR	n/a
¥	– fixed	46.9	(1.29%)	n/a	40
Other		3.0	n/a	Various	n/a
		1,759.7			

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

Notes
[1] Weighted average.
[2] Including drawings on working capital facility as described in note 18.

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

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

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Changes in working capital and provisions			
Decrease/(increase) in stocks and work in progress	**40.1**	43.5	(70.7)
Increase in debtors	**(414.6)**	(65.5)	(18.1)
Increase in creditors – short-term	**368.9**	366.7	322.4
– long-term	**29.9**	31.4	0.6
Increase/(decrease) in provisions	**0.8**	(55.5)	(11.3)
Decrease in working capital and provisions	**25.1**	320.6	222.9

Notes
[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

The main reconciliation is disclosed along with the cash flow statement on page 135.

11 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 135:

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(99.7)**	(52.8)	(98.9)
Interest received	**48.9**	30.2	32.7
Dividends paid to minorities	**(22.5)**	(15.7)	(12.0)
Net cash outflow	**(73.3)**	(38.3)	(78.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 14)	**(95.6)**	(93.9)	(100.5)
Proceeds from sale of tangible fixed assets and other movements	**9.3**	8.7	10.2
Net cash outflow	**(86.3)**	(85.2)	(90.3)
Acquisitions and disposals			
Cash consideration for acquisition of Cordiant	**–**	(207.9)	–
Proceeds from disposal of interest in Zenith Optimedia Group	**–**	75.0	–
Net cash acquired – Cordiant	**–**	37.8	–
Initial cash consideration for other acquisitions	**(97.3)**	(70.1)	(141.2)
Earnout payments	**(78.6)**	(56.2)	(82.4)
Loan note redemptions	**(26.6)**	(38.7)	(93.7)
Cash acquired – other acquisitions	**6.3**	5.3	62.8
Purchase of other investments (including associates)	**(22.0)**	(100.7)	(26.1)
Proceeds from disposal of other investments (including associates)	**9.3**	11.0	3.3
Net cash outflow	**(208.9)**	(344.5)	(277.3)
Financing activities			
Proceeds from issue of $650m 10-year bond	**358.2**	–	–
Repayment of €350m bond	**(230.5)**	–	–
Increase/(reduction) in drawings on bank loans	**0.9**	25.0	(239.3)
Financing and share issue costs	**(5.0)**	(3.4)	(12.9)
Proceeds from issue of shares	**17.9**	18.1	24.4
Share placement	**–**	100.2	–
Proceeds from issue of convertible bond	**–**	–	450.0
Share cancellations (including brokerage fees)	**(73.7)**	(20.2)	(8.3)
Purchase of own shares by ESOP Trusts	**(15.0)**	(2.9)	(67.6)
Net cash inflow	**52.8**	116.8	146.3

Notes
[1] Retated on implementation of UITF 38 (Acounting for ESOP Trusts).

12 Segment information

Net assets by geographical area were as follows:

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
North America	**2,364.1**	2,428.1	2,965.2
UK	**825.1**	761.0	875.4
Continental Europe	**489.2**	432.2	128.4
Asia Pacific, Latin America, Africa & Middle East	**588.2**	556.0	187.4
	4,266.6	4,177.3	4,156.4
Net interest bearing debt[2]	**(300.5)**	(361.5)	(722.7)
Net assets including pension provision	**3,966.1**	3,815.8	3,433.7

12 Segment information (continued)

Net assets by operating sector were as follows:

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Advertising and Media investment management[3]	**3,341.1**	3,417.3	4,100.7
Information, insight & consultancy	**279.6**	158.5	(48.8)
Public relations & public affairs[3]	**245.8**	220.8	(133.7)
Branding & identity, Healthcare and Specialist communications	**400.1**	380.7	238.2
	4,266.6	4,177.3	4,156.4
Net interest bearing debt[2]	**(300.5)**	(361.5)	(722.7)
Net assets including pension provision	**3,966.1**	3,815.8	3,433.7

Notes
[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).
[2] The net interest-bearing debt has not been allocated within the above analysis as the debt is held centrally and specifically allocating it to individual segments is not considered to be a fair representation of the net assets of those segments.
[3] In 2004 certain of the Group's public relations and public affairs businesses, which were historically included in Advertising and Media investment management have been moved to Public relations & public affairs. As a result the comparative figures for both Advertising and Media investment management and Public relations & public affairs have been restated to reflect this change.

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

13 Intangible fixed assets

	2004 £m	2003 £m	2002 £m
Corporate brand names	**950.0**	950.0	950.0

Corporate brand names represent JWT, Hill & Knowlton, Ogilvy & Mather Worldwide and the Young & Rubicam Group. These assets are carried at historic cost (at historic exchange rates) in accordance with the Group's accounting policy for intangible fixed assets as stated on pages 130 and 131.

Goodwill
The movements in 2003 and 2004 were as follows:

Cost	£m
1 January 2003	4,614.9
Additions	381.0
31 December 2003	4,995.9
Additions	210.4
31 December 2004	**5,206.3**

Amortisation	£m
1 January 2003	207.9
Amortisation	29.5
Impairment	48.2
31 December 2003	285.6
Amortisation	39.0
Impairment	36.0
31 December 2004	**360.6**

Net book value	£m
31 December 2004	**4,845.7**
31 December 2003	4,710.3
1 January 2003	4,407.0

Goodwill additions segment information
The following table shows goodwill additions attributable to each of the Group's operating sectors:

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	**8.0**	189.3	49.9
Information, insight & consultancy	**162.8**	13.7	29.6
Public relations & public affairs	**34.7**	21.3	21.6
Branding & identity, Healthcare and Specialist communications	**4.9**	156.7	43.7
	210.4	381.0	144.8

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

Gross goodwill (in respect of subsidiary and associate undertakings) of £649.8 million (2003: £519.1 million, 2002: £572.3 million) is subject to amortisation over periods of up to 20 years.

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

The 2004 impairment review was initially undertaken as at 30 June 2004 and then updated as at 31 December 2004. The review assessed whether the carrying value of goodwill was supported by the net present value of future cashflows derived from assets using a projection period of up to five years for each income generating unit. After the projection period, growth rates of nominal GDP have been assumed for each income generating unit.

13 Intangible fixed assets (continued)

The impairment reviews relating to Young & Rubicam (goodwill of £2,498.3 million) and Mediaedge:cia (goodwill of £838.5 million) are based on reviews initially undertaken as at 31 December 2002 and then updated with respect to actual performance for the years ended 31 December 2003 and 2004. These reviews were carried out using a 10-year projection period as the Group believes that this longer period is more appropriate to assess the carrying value of these global networks and reflect the economic cycles that occur within the global markets in which these companies operate. The projections for the initial three years were derived from existing budgets and three-year plans and form the base period. Projections for the remaining seven years assume an annual 4.4% growth in revenues and maintaining operating margins of 17%. At the end of the 10-year period growth is assumed to be in line with nominal GDP. The projections above include assumptions about payments for cash taxes and cash flows have therefore been discounted using the Group's current weighted average cost of capital of 8.1%. Had the Group's weighted cost of capital not been reduced from 8.5% in 2003 to 8.1% in 2004 (as a result of the decline in the yield on the 30 year Treasury Bond from 5.1% to 4.5% in 2004), a potential impairment would have existed.

The estimates and assumptions made in connection with impairment testing could differ from future actual results of operations and cash flows. Further, future events could cause the Company to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a material impact on the Company's financial condition and results of operations. The carrying value of goodwill and other intangible assets will continue to be reviewed at least annually for impairment and adjusted to the recoverable amount if required.

14 Tangible fixed assets

The movements in 2004 and 2003 were as follows:

	Land and buildings		Fixtures,		
Cost:	Freehold[1] £m	Short leasehold £m	fittings and equipment £m	Computer equipment £m	Total £m
1 January 2003	60.0	254.7	244.7	385.5	944.9
Additions	0.3	31.4	15.2	47.0	93.9
New acquisitions	1.2	22.0	26.9	29.8	79.9
Disposals	(1.8)	(20.3)	(25.7)	(46.3)	(94.1)
Exchange adjustments	(6.2)	(14.6)	(10.0)	(12.8)	(43.6)
31 December 2003	53.5	273.2	251.1	403.2	981.0
Additions[2]	0.7	27.3	19.4	54.6	102.0
New acquisitions	2.5	3.3	12.3	27.8	45.9
Disposals	(1.6)	(14.2)	(28.7)	(44.5)	(89.0)
Exchange adjustments	(2.3)	(7.9)	(13.2)	(7.6)	(31.0)
31 December 2004	**52.8**	**281.7**	**240.9**	**433.5**	**1,008.9**
Depreciation:					
1 January 2003	16.6	118.5	166.4	266.1	567.6
New acquisitions	0.2	10.3	19.1	20.3	49.9
Charge	1.6	25.7	26.4	73.8	127.5
Disposals	(0.3)	(18.0)	(25.2)	(41.0)	(84.5)
Exchange adjustments	(1.7)	(6.8)	(13.4)	(2.2)	(24.1)
31 December 2003	16.4	129.7	173.3	317.0	636.4
New acquisitions	0.4	1.7	9.6	17.7	29.4
Charge	2.4	25.8	23.0	52.2	103.4
Disposals	(0.3)	(11.3)	(24.0)	(42.3)	(77.9)
Exchange adjustments	(0.4)	(6.9)	(7.0)	(1.9)	(16.2)
31 December 2004	**18.5**	**139.0**	**174.9**	**342.7**	**675.1**
Net book value:					
31 December 2004	**34.3**	**142.7**	**66.0**	**90.8**	**333.8**
31 December 2003	37.1	143.5	77.8	86.2	344.6
1 January 2003	43.4	136.2	78.3	119.4	377.3

Notes

[1] Includes land of £14.1 million (2003: £15.1 million, 2002: £18.3 million).

[2] Includes £6.4 million in respect of finance leases.

Leased assets (other than leasehold property) included above have a net book value of £8.5 million (2003: £2.3 million, 2002: £3.8 million). Future obligations in respect of these leased assets were £8.6 million at 31 December 2004 (2003: £0.8 million, 2002: £1.6 million) and are included in other creditors.

14 Tangible fixed assets (continued)

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

	2004 £m	2003 £m	2002 £m
Capital commitments – tangible fixed assets	**30.9**	6.8	9.1

15 Fixed asset investments

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

	Associate undertakings £m	Goodwill on associate undertakings £m	Other investments £m	Total Restated[1] £m
1 January 2003	131.0	160.5	25.0	316.5
Additions	93.3	–	5.1	98.4
Goodwill arising on acquisition of new associates	–	80.8	–	80.8
Share of profits after tax of associate undertakings	26.9	–	–	26.9
Dividends and other movements	(15.2)	–	–	(15.2)
Exchange adjustments	(5.8)	–	(0.5)	(6.3)
Disposals	(78.1)	(7.1)	(2.0)	(87.2)
Reclassification from/(to) subsidiaries	3.7	3.8	(5.6)	1.9
Goodwill amortisation	–	(3.5)	–	(3.5)
Goodwill impairment	–	(30.8)	–	(30.8)
31 December 2003	155.8	203.7	22.0	381.5
Additions	(0.5)	–	0.8	0.3
Goodwill arising on acquisition of new associates	–	36.0	–	36.0
Share of profits after tax of associate undertakings	31.6	–	–	31.6
Dividends and other movements	(23.3)	–	(4.9)	(28.2)
Exchange adjustments	1.1	–	–	1.1
Disposals	(0.1)	(2.5)	(0.6)	(3.2)
Reclassification to subsidiaries	(2.8)	(14.3)	(4.2)	(21.3)
Goodwill amortisation	–	(3.5)	–	(3.5)
Write-downs	–	–	(5.0)	(5.0)
31 December 2004	**161.8**	**219.4**	**8.1**	**389.3**

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.9	Japan
Brierley & Partners	20.1	US
Chime Communications PLC	21.2	UK
DYR Tokyo Agency	49.0	Japan
High Co S.A.	31.9	France
IBOPE Group	31.2	Brazil
LG Ad Inc	28.2	Korea
Media Production Properties BV	30.0	Netherlands
Singleton, Ogilvy & Mather (Holdings) Pty Limited	41.0	Australia

The market value of the Group's investments in its principal listed associate undertakings at 31 December 2004 was as follows: Asatsu-DK: £151.8 million, Chime Communications PLC: £12.2 million, High Co S.A.: £16.6 million and LG Ad Inc: £29.0 million. The carrying value (including goodwill) of these equity interests in the Group's balance sheet at 31 December 2004 was as follows: Asatsu-DK: £139.9 million, Chime Communications PLC: £10.3 million, High Co S.A.: £14.3 million and LG Ad Inc: £37.1 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Summarised financial information

The following tables present a summary of the aggregate financial performance and net asset position of the Group's principal associate undertakings, which had revenues of £618.3 million. These have been estimated and converted, where appropriate, to a UK GAAP presentation based on information provided by the relevant companies at 31 December 2004. Total revenue generated by all the Group's associates is estimated to be £1.0 billion for the year ended 31 December 2004.

	2004 £m	2003 £m	2002 £m
Profit and loss account			
Revenue	**618.3**	499.3	448.9
Operating profit	**105.0**	81.8	53.0
Profit before tax	**111.6**	85.2	57.0
Profit attributable to ordinary share owners	**95.3**	57.5	47.9

	2004 £m	2003 £m	2002 £m
Balance sheet			
Current assets	**1,148.3**	1,087.6	850.6
Non-current assets	**722.3**	689.9	604.4
Current liabilities	**863.7**	852.1	698.5
Non-current liabilities	**162.9**	103.9	109.5
Net assets	**844.0**	821.5	647.0

15 Fixed asset investments (continued)

Associate segment information

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

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	258.7	249.8	195.3
Information, insight & consultancy	17.2	35.1	26.8
Public relations & public affairs	14.3	4.1	2.8
Branding & identity, Healthcare and Specialist communications	91.0	70.5	66.6
	381.2	359.5	291.5

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

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	20.7	24.7	21.1
Information, insight & consultancy	6.5	6.7	5.7
Public relations & public affairs	2.2	0.9	(1.6)
Branding & identity, Healthcare and Specialist communications	18.7	8.2	4.8
	48.1	40.5	30.0

The following table shows goodwill amortisation attributable to associated undertakings in each of the Group's operating sectors:

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	1.2	–	–
Information, insight & consultancy	–	–	–
Public relations & public affairs	–	–	–
Branding & identity, Healthcare and Specialist communications	2.3	3.5	–
	3.5	3.5	–

The following table shows goodwill impairment attributable to associated undertakings in each of the Group's operating sectors:

	2004 £m	2003 £m	2002 £m
Advertising and Media investment management	–	–	–
Information, insight & consultancy	–	–	–
Public relations & public affairs	–	–	–
Branding & identity, Healthcare and Specialist communications	–	30.8	–
	–	30.8	–

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

	2004 £m	2003 £m	2002 £m
Capital commitments – fixed asset investments	6.3	14.3	49.4

Capital commitments for fixed asset investments generally comprise capital calls, amounts due under agreements to purchase shares of partially-owned subsidiaries or associated companies, where notice of intent to exercise options has been given to WPP by the seller, and cash in escrow committed for acquisitions.

16 Stocks and work in progress

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

	2004 £m	2003 £m	2002 £m
Work in progress	216.5	267.4	288.8
Stocks	4.1	2.2	2.8
	220.6	269.6	291.6

17 Debtors

The following are included in debtors:

Amounts falling due within one year	2004 £m	2003 £m	2002 £m
Trade debtors outside working capital facility	2,058.5	1,883.4	1,753.0
VAT and sales taxes recoverable	29.1	36.7	32.3
Corporate income taxes recoverable	24.2	14.0	14.2
Deferred tax	76.6	70.0	61.6
Other debtors	238.1	187.1	239.7
Prepayments and accrued income	191.6	152.3	120.0
	2,618.1	2,343.5	2,220.8

17 Debtors (continued)

Amounts falling due after more than one year	2004 £m	2003 £m	2002 £m
Other debtors	54.2	43.8	32.8
Prepayments and accrued income	5.3	7.2	2.8
	59.5	51.0	35.6
	2,677.6	2,394.5	2,256.4

Movements on bad debt provisions were as follows:

	2004 £m	2003 £m	2002 £m
Balance at beginning of year	66.6	58.5	63.8
Charged/(credited):			
To costs and expenses	13.5	22.2	18.3
Exchange adjustments	(0.7)	(1.5)	(2.8)
Utilisations and other movements	(16.3)	(12.6)	(20.8)
Balance at end of year	63.1	66.6	58.5

The allowance for bad and doubtful debts is equivalent to 2.7% (2003: 3.2%, 2002: 3.0%) of gross trade accounts receivable.

£42 million of the deferred tax asset above relates to US tax losses and other tax attributes. In addition to this asset, the potential tax benefit that may be available to the Group in respect of tax losses carried forward and timing differences is £311.2 million (2003: £258.7 million; 2002: £270.1 million). The Group has not recognised any additional deferred tax asset as there is insufficient evidence that there would be enough taxable profits in the entities concerned such that any additional asset could be considered recoverable. A potential deferred tax liability of £8.5 million is required by FRS 19 (Deferred tax) to be offset against the Group's tax attributes although this deferred tax liability would only crystallise in the unlikely event that the Group disposed of certain acquired entities in a manner that gave rise to a taxable transaction.

18 Debtors within working capital facility

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

	2004 £m	2003 £m	2002 £m
Gross debts	545.7	507.5	385.7
Non-returnable proceeds	(261.0)	(280.4)	(217.4)
	284.7	227.1	168.3

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

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

19 Creditors: amounts falling due within one year

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

	2004 £m	2003 Restated[1] £m	2002 £m
Convertible bonds (note 9)	150.1	–	–
Corporate bonds, bank loans and overdrafts (note 9)	447.7	552.4	199.7
Trade creditors	2,885.3	2,733.3	2,477.8
Corporate income taxes payable	53.1	29.5	29.9
Other taxation and social security	151.4	125.6	111.7
Dividends proposed (note 7)	62.6	52.2	42.5
Payments due to vendors	146.6	81.6	73.6
Loan notes due to vendors	7.2	13.9	27.3
Other creditors and accruals	910.2	921.6	822.6
Deferred income	405.8	391.9	335.0
	5,220.0	4,902.0	4,120.1

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Corporate bonds, bank loans and overdrafts include overdrafts of £333.0 million (2003: £302.1 million, 2002: £188.2 million).

20 Creditors: amounts falling due after more than one year

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

	2004 £m	2003 £m	2002 £m
Convertible bonds	**446.2**	604.6	628.6
Corporate bonds and bank loans	**872.4**	624.4	773.9
Corporate income and other taxes payable	**290.6**	268.7	215.7
Payments due to vendors	**152.0**	134.1	164.2
Other creditors and accruals	**91.4**	59.3	55.1
	1,852.6	1,691.1	1,837.5

The following table sets out payments due to vendors, comprising deferred consideration and the directors' best estimates of future earnout related obligations:

	2004 £m	2003 £m	2002 £m
Within one year	**146.6**	81.6	73.6
Between one and two years	**65.0**	60.9	75.9
Between two and three years	**61.0**	32.4	20.8
Between three and four years	**3.4**	37.0	36.5
Between four and five years	**21.4**	3.8	29.0
Over five years	**1.2**	–	2.0
	298.6	215.7	237.8

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

	2004 £m	2003 £m	2002 £m
Within one year	**597.8**	552.4	199.7
Between one and two years	**2.5**	273.1	227.4
Between two and three years	**453.3**	–	302.3
Between three and four years	**510.9**	443.4	–
Between four and five years	**–**	512.5	420.1
Over five years	**351.9**	–	452.7
	1,916.4	1,781.4	1,602.2

21 Provisions for liabilities, charges and contingent liabilities

The movements in 2004 and 2003 were as follows:

	Other post-retirement benefits £m	Long-term incentive plans Restated[1] £m	Property and other £m	Total Restated[1] £m
1 January 2003	14.3	18.8	37.4	70.5
Charged to the profit and loss account	0.3	3.0	0.4	3.7
New acquisitions	–	–	71.2	71.2
Utilised	(0.3)	–	(12.6)	(12.9)
Transfers[2]	(6.2)	(14.7)	(3.7)	(24.6)
Exchange adjustments	(0.7)	(0.3)	(7.2)	(8.2)
31 December 2003	7.4	6.8	85.5	99.7
Charged to the profit and loss account	0.5	0.8	2.0	3.3
New acquisitions	–	–	14.3	14.3
Utilised	(0.8)	–	(14.2)	(15.0)
Transfers[2]	(5.9)	(7.4)	4.9	(8.4)
Exchange adjustments	(1.2)	(0.2)	(1.3)	(2.7)
31 December 2004	**–**	**–**	**91.2**	**91.2**

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] Transfers comprise amounts transferred to creditors.

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

Property and other

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

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

Contingent liabilities in respect of option agreements

WPP has entered into agreements with certain share owners of partially-owned subsidiaries and associate companies to acquire equity interests. Some of these agreements contain options requiring WPP to purchase their shares from specified times on the basis of average earnings before and/or 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 2004.

	Currently exercisable £m	Not currently exercisable £m	Total £m
Subsidiaries	10.1	32.5	42.6
Associates	2.7	6.6	9.3
Total	12.8	39.1	51.9

22 Pension provisions and pension arrangements

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

	2004 £m	2003 £m	2002 £m
Defined contribution schemes	**52.4**	49.5	49.2
Defined benefit schemes charge to operating profit	**12.0**	15.4	11.4
Pension costs (note 3)	**64.4**	64.9	60.6
Net interest charges on defined benefit pension schemes (note 5)	**9.5**	11.5	6.8
	73.9	76.4	67.4

Defined benefit schemes

The pension costs are assessed in accordance with the advice of local independent qualified actuaries. The latest full actuarial valuations for the various schemes were carried out as at various dates in the last three years. These valuations have generally been updated by the local independent qualified actuaries to 31 December 2004.

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

Contributions to funded schemes are determined in line with local conditions and practices. Certain contributions in respect of unfunded schemes are paid as they fall due. The total contributions (for funded schemes) and benefit payments (for unfunded schemes) paid for 2004 amounted to £36.0 million (2003: £23.1million, 2002: £21.5 million).

22 Pension provisions and pension arrangements (continued)

(a) Assumptions

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

	2004 % pa	2003 % pa	2002 % pa	2001 % pa
UK				
Discount rate	**5.3**	5.5	5.5	5.8
Rate of increase in salaries	**4.3**	3.6	3.3	3.3
Rate of increase in pensions in payment	**3.8**	3.8	3.8	3.8
Inflation	**2.8**	2.8	2.5	2.5
Expected rate of return on equities	**7.5**	7.5	7.3	7.5
Expected rate of return on bonds[1]	**5.0**	5.0	4.8	5.0
Expected rate of return on insured annuities	**5.3**	5.5	4.8	5.0
Expected rate of return on property	**7.0**	7.0	6.8	7.0
Expected rate of return on cash	**3.0**	3.0	2.8	3.0
Weighted average return on assets	**5.7**	5.8	5.4	5.8
North America				
Discount rate	**5.7**	6.3	6.8	7.5
Rate of increase in salaries	**4.0**	3.2	4.0	6.2
Inflation	**3.0**	3.0	3.0	3.4
Expected rate of return on equities	**7.9**	8.2	8.2	10.0
Expected rate of return on bonds[1]	**4.8**	4.8	5.3	7.0
Expected rate of return on cash	**1.8**	3.1	3.5	3.5
Weighted average return on assets	**6.9**	7.0	7.2	9.1
Continental Europe				
Discount rate	**4.5**	5.3	5.5	5.9
Rate of increase in salaries	**3.1**	3.2	3.1	2.4
Rate of increase in pensions in payment	**1.7**	1.7	1.7	1.0
Inflation	**2.0**	2.0	2.0	1.5
Expected rate of return on equities	**7.0**	7.5	7.5	6.0
Expected rate of return on bonds[1]	**4.5**	5.0	5.0	6.2
Expected rate of return on property	**6.4**	7.0	7.0	6.0
Expected rate of return on cash	**2.6**	3.0	3.0	6.0
Weighted average return on assets	**5.5**	5.9	6.0	6.1
Asia-Pacific, Latin America, Africa & Middle East				
Discount rate	**3.1**	2.8	2.8	4.3
Rate of increase in salaries	**3.1**	2.7	2.7	2.5
Inflation	**1.5**	1.6	1.7	n/a
Expected rate of return on bonds[1]	**3.1**	2.6	2.7	5.1
Expected rate of return on property	**10.0**	10.0	n/a	n/a
Expected rate of return on cash	**7.3**	7.3	6.0	n/a
Weighted average return on assets	**3.1**	2.7	2.8	5.1

Notes

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

(b) Assets and liabilities

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

	2004 £m	2003 £m	2002 £m	2001 £m
Group				
Equities	**148.8**	132.1	115.8	152.9
Bonds	**157.7**	137.4	100.5	97.8
Insured annuities	**66.8**	60.9	63.4	58.4
Property	**14.8**	11.2	10.8	10.2
Cash	**4.8**	6.5	4.5	4.1
Total fair value of assets	**392.9**	348.1	295.0	323.4
Present value of scheme liabilities	**(595.2)**	(547.0)	(479.8)	(458.7)
Deficit in the schemes	**(202.3)**	(198.9)	(184.8)	(135.3)

The related deferred tax asset is discussed in note 17.

Deficit in schemes by region				
UK	**(54.6)**	(44.4)	(35.8)	(19.3)
North America	**(102.9)**	(116.6)	(111.6)	(84.6)
Continental Europe	**(41.3)**	(33.3)	(31.3)	(23.7)
Asia Pacific, Latin America, Africa & Middle East	**(3.5)**	(4.6)	(6.1)	(7.7)
Deficit in the scheme	**(202.3)**	(198.9)	(184.8)	(135.3)

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

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

The following table shows the split of the deficit at 31 December 2004 and 2003 between funded and unfunded schemes.

22 Pension provisions and pension arrangements (continued)

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

	2004 Deficit £m	2004 Funding period years	2003 Deficit £m	2003 Funding period years
Funded schemes by region				
UK	**54.6**	**10.1**	44.4	10.0
North America	**48.5**	**7.7**	58.7	8.3
Continental Europe	**5.5**	**13.4**	2.1	16.2
Asia Pacific, Latin America, Africa & Middle East	**2.6**	**13.1**	2.7	10.5
Deficit in the funded schemes	**111.2**	**9.3**	107.9	9.2
Unfunded schemes by region				
UK	**–**	**–**	–	–
North America	**54.3**	**13.0**	57.8	12.9
Continental Europe	**35.8**	**9.4**	31.2	12.1
Asia Pacific, Latin America, Africa & Middle East	**1.0**	**17.4**	2.0	16.2
Deficit in the unfunded schemes	**91.1**	**11.6**	91.0	12.7

For the Group's plans, the plans' assets are invested with the objective of being able to meet current and future benefit payment needs, while controlling balance sheet volatility and future contributions. Plan assets are invested with a number of investment managers, and assets are diversified among equities, bonds, insured annuities, property and cash or other liquid investments. The primary use of bonds as an investment class is to match the anticipated cash flows from the plans to pay pensions. Various insurance policies have also been bought historically to provide a more exact match for the cash flows, including a match for the actual mortality of specific plan members. These insurance policies effectively provide protection against both investment fluctuations and longevity risks. The strategic target allocation varies among the individual schemes. The 2005 weighted-average target allocations are shown below:

	2005 Weighted-Average Target Allocation %
Equities	41.36
Bonds and insured annuities	52.08
Property/cash	6.56

(c) Pension expense

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

	2004 £m	2003 £m	2002 £m
Group			
Current service cost	**11.8**	12.3	12.1
Past service cost	**0.1**	2.9	(0.7)
Loss on settlements and curtailments	**0.1**	0.2	–
Charge to operating profit	**12.0**	15.4	11.4
Expected return on pension scheme assets	**(21.3)**	(18.8)	(21.9)
Interest on pension scheme liabilities	**30.8**	30.3	28.7
Charge to net interest payable and similar charges	**9.5**	11.5	6.8
Charge to profit on ordinary activities before taxation for defined benefit schemes	**21.5**	26.9	18.2
(Gain)/loss on pension scheme assets relative to expected return	**(13.5)**	(16.8)	36.7
Experience gains and losses arising on the scheme liabilities	**(1.2)**	2.4	3.6
Changes in assumptions underlying the present value of the scheme liabilities	**40.3**	10.3	21.5
Movement in exchange rates	**(7.4)**	(9.9)	(9.0)
Actuarial loss/(gain) recognised in STRGL	**18.2**	(14.0)	52.8

22 Pension provisions and pension arrangements (continued)

(d) Movement in scheme deficit

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

	2004 £m	2003 £m	2002 £m
Group			
Deficit at 1 January	**198.9**	184.8	135.3
Current service cost	**11.8**	12.3	12.1
Past service costs	**0.1**	2.9	(0.7)
Loss on settlements and curtailments	**0.1**	0.2	–
Acquisitions	**(0.3)**	24.3	–
Charge to net interest payable and similar charges	**9.5**	11.5	6.8
Actuarial loss/(gain)	**18.2**	(14.0)	52.8
Employer contributions	**(36.0)**	(23.1)	(21.5)
Deficit at 31 December	**202.3**	198.9	184.8
Deferred tax asset	**(14.5)**	(10.0)	0.0
Pension provision	**187.8**	188.9	184.8

(e) History of experience gains and losses

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
(Gain)/loss on pension scheme assets relative to expected return:					
Amount	**(13.5)**	(16.8)	36.7	46.0	9.2
Percentage of scheme assets	**(3.4%)**	(4.8%)	12.4%	14.2%	2.6%
Experience (gains)/losses arising on the scheme liabilities:					
Amount	**(1.2)**	2.4	3.6	8.4	10.5
Percentage of the present value of the scheme liabilities	**(0.2%)**	0.4%	0.8%	1.8%	2.4%
Total loss/(gain) recognised in STRGL:					
Amount	**18.2**	(14.0)	52.8	43.0	27.0
Percentage of the present value of the scheme liabilities	**3.1%**	(2.6%)	11.0%	9.4%	6.1%

23 Fair value of financial instruments

Derivative financial instruments

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

	31 Dec 2004 Swaps £m	31 Dec 2003 Swaps £m	31 Dec 2002 Swaps £m
Fair value	**15.7**	15.8	52.9
Book value	**(2.0)**	13.6	28.2

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

As explained in the operating and financial review on page 124, the Group's policy is to hedge the following exposures: interest rate risk – using interest swaps, caps and collars; currency swaps; and forward foreign currency contracts; structural and transactional currency exposures, and currency exposures on future expected sales – using currency swaps and forward foreign currency contracts.

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

	Gains £m	Losses £m	Total net gains £m
Unrecognised gains and losses on hedges at 1 January 2004	**34.4**	**(3.1)**	**31.3**
Gains and losses arising in previous years that were recognised in 2004	**(3.4)**	**–**	**(3.4)**
Gains and losses arising in previous years that were not recognised in 2004	**31.0**	**(3.1)**	**27.9**
Gains and losses arising in 2004 that were not recognised in 2004	**2.0**	**–**	**2.0**
Unrecognised gains and losses on hedges at 31 December 2004	**33.0**	**(3.1)**	**29.9**
Gains and losses expected to be recognised in 2005	**5.0**	**–**	**5.0**
Gains and losses expected to be recognised in 2006 or later	**28.0**	**(3.1)**	**24.9**

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

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 2004 does not differ materially from their aggregate carrying values recorded in the consolidated balance sheet.

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

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

The fair value of our $950 million bonds, €650 million Eurobonds, $287.5 million convertible bonds and £450 million convertible bonds at 31 December 2004 was £1,616 million. This is calculated by reference to market prices at 31 December 2004. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange.

24 Share capital

	2004 Number m	2004 £m	2003 Number m	2003 £m	2002 Number m	2002 £m
Authorised:						
Equity ordinary shares of 10p each	**1,750.0**	**175.0**	1,750.0	175.0	1,750.0	175.0
Allotted, called up and fully paid:						
Equity ordinary shares of 10p each	**1,185.3**	**118.5**	1,187.4	118.7	1,157.3	115.7

During the year the Group allotted 11.3 million shares with a nominal value of £1.1 million and cancelled 13.4 million shares with a nominal value of £1.3 million. Movements in each year are shown in note 25.

24 Share capital (continued)

Share options

WPP Executive Share Option Scheme

As at 31 December 2004, unexercised options over ordinary shares of 27,964,624 and unexercised options over ADRs of 9,282,738 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
311,880	1.080	1998 – 2005
347,165	1.269	2000 – 2006
742,437	1.540	1998 – 2005
215,120	1.540	2000 – 2005
1,207,239	2.040	2000 – 2007
532,550	2.140	1999 – 2006
1,329,340	2.335	1999 – 2006
6,037	2.535	2000 – 2007
1,604,585	2.835	2000 – 2007
1,826,768	2.930	2001 – 2008
5,022	3.030	2001 – 2008
29,200	3.270	2001 – 2008
59,350	3.763	2006 – 2013
83,500	4.136	2000 – 2008
19,160	4.210	2005 – 2006
3,670,846	4.210	2005 – 2012
76,644	4.210	2005 – 2013
61,316	4.210	2006 – 2012
127,877	4.438	2005 – 2012
41,170	4.615	2006 – 2013
51,247	4.615	2007 – 2013
375,750	4.705	2000 – 2008
14,025	4.865	2004 – 2005
2,536,877	4.865	2004 – 2011
35,064	4.865	2005 – 2011
69,970	5.185	2002 – 2009
2,000,000	5.490	2007 – 2014
27,288	5.520	2007 – 2014
3,335,404	5.535	2007 – 2014
44,648	5.535	2008 – 2014
3,236,053	5.595	2006 – 2013
23,137	5.595	2006 – 2014
40,334	5.595	2007 – 2013
24,408	5.595	2006 – 2007
497,828	5.700	2002 – 2009
29,511	5.725	2007 – 2014
857,177	6.163	2000 – 2009
7,005	6.280	2004 – 2011
41,750	6.328	2000 – 2009
758,740	7.052	2000 – 2010
64,165	7.180	2005 – 2012
20,875	7.383	2000 – 2009
43,629	7.550	2005 – 2006
679,512	7.550	2005 – 2012
4,302	7.550	2006 – 2012
10,437	7.569	2000 – 2009
82,634	8.110	2004 – 2011
2,048	8.110	2004 – 2005
2,985	8.110	2005 – 2011
47,759	8.193	2004 – 2011
16,700	8.769	2000 – 2010
10,438	8.996	2000 – 2010
491,529	9.010	2003 – 2010
135,606	9.010	2003 – 2010
11,575	9.010	2004 – 2010
37,008	10.770	2003 – 2010
27,964,624		

24 Share capital (continued)

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
150,704	9.186	2000 – 2006
20,514	9.186	2000 – 2007
729,501	14.767	2000 – 2007
131,442	30.080	2006 – 2013
33,244	30.080	2007 – 2013
1,631,627	33.200	2005 – 2012
66,062	34.057	2000 – 2008
2,881	34.702	2005 – 2012
8,644	34.702	2007 – 2012
1,325,548	35.380	2004 – 2011
15,991	37.520	2006 – 2013
352,719	44.610	2000 – 2009
357,826	46.475	2002 – 2009
50,786	46.556	2000 – 2009
1,403,621	47.410	2006 – 2013
11,481	48.204	2000 – 2010
1,548	48.450	2007 – 2014
4,175	48.802	2000 – 2009
4,175	50.299	2000 – 2010
1,378,663	50.800	2007 – 2014
479,832	51.048	2000 – 2010
49,424	51.220	2007 – 2014
9,652	51.800	2007 – 2014
45,145	53.030	2005 – 2012
25,050	53.443	2000 – 2009
86,005	54.042	2000 – 2009
344,133	54.050	2005 – 2012
8,350	55.314	2000 – 2009
75,150	56.287	2000 – 2009
12,525	57.186	2000 – 2009
6,976	57.338	2003 – 2010
35,083	58.238	2004 – 2011
18,619	58.886	2004 – 2011
3,341	59.656	2000 – 2010
2,088	60.329	2000 – 2010
6,263	60.479	2000 – 2010
61,302	62.110	2003 – 2010
2,415	62.110	2005 – 2010
280,342	63.263	2003 – 2010
2,923	63.773	2000 – 2010
5,878	66.692	2000 – 2010
3,340	67.066	2000 – 2010
4,175	68.488	2000 – 2010
11,690	71.781	2000 – 2010
1,587	72.605	2000 – 2010
17,793	84.485	2003 – 2010
2,505	84.731	2000 – 2010
9,282,738		

24 Share capital (continued)

WPP Worldwide Share Ownership Program

As at 31 December 2004, unexercised options over ordinary shares of 6,195,125 and unexercised options over ADRs of 806,740 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
72,225	2.695	2000 – 2007
227,150	3.400	2001 – 2008
73,200	3.903	2006 – 2007
1,876,900	3.903	2006 – 2013
31,800	3.903	2007 – 2013
64,025	4.210	2005 – 2012
13,250	4.210	2005 – 2013
11,000	5.210	2004 – 2011
390,725	5.315	2002 – 2009
9,800	5.315	2003 – 2009
23,000	5.435	2008 – 2014
58,125	5.435	2007 – 2008
6,875	5.435	2007 – 2011
1,458,600	5.435	2007 – 2014
16,125	5.990	2004 – 2011
33,750	7.180	2005 – 2006
681,200	7.180	2005 – 2012
15,375	7.180	2006 – 2012
599,725	7.790	2003 – 2010
8,500	7.790	2004 – 2010
21,150	7.960	2004 – 2005
491,750	7.960	2004 – 2011
10,875	7.960	2005 – 2011
6,195,125		

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
307,480	30.800	2006 – 2013
251,485	49.880	2007 – 2014
140,365	53.030	2005 – 2012
107,410	56.480	2004 – 2011
806,740		

24 Share capital (continued)

Tempus Group plc 1998 Long Term Incentive Plan

As at 31 December 2004, unexercised options over ordinary shares of 417,394 have been granted under the Tempus Group plc 1998 Long Term Incentive Plan as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
243,063	2.260	2001 – 2008
56,713	4.920	2001 – 2011
12,147	4.930	2001 – 2011
48,606	4.970	2001 – 2009
2,023	4.980	2001 – 2009
20,254	5.580	2001 – 2011
34,588	6.000	2001 – 2010
417,394		

The aggregate status of the WPP Share Option Schemes during 2004 was as follows:

Movement on options granted (represented in ordinary shares)

	1 January 2004 number	Granted number	Exercised number	Lapsed number	31 December 2004 number
WPP	63,420,557	15,750,515	(3,643,810)	(5,253,989)	70,273,273
Y&R	19,482,211	–	(3,985,818)	(1,162,527)	14,333,866
Tempus	417,394	–	–	–	417,394
	83,320,162	15,750,515	(7,629,628)	(6,416,516)	85,024,533

Options outstanding over ordinary shares

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
1.080-10.770	4.707	85

Options outstanding over ADRs

Range of exercise prices $	Weighted average exercise price $	Weighted average contractual life Months
9.186-84.731	41.539	87

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

	2004	2003	2002
Fair value of UK options (shares)	**205.5p**	184.0p	196.7p
Fair value of US options (ADRs)	**$18.38**	$15.12	$13.95
Weighted average assumptions:			
UK Risk-free interest rate	**4.27%**	4.38%	4.51%
US Risk-free interest rate	**3.16%**	2.67%	3.01%
Expected life (months)	**48**	48	48
Expected volatility	**45%**	45%	45%
Dividend yield	**1.0%**	1.0%	1.0%

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

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

	2004[1]	2003[1]	2002
Fair value	**n/a**	n/a	319.7p
Weighted average assumptions:			
Risk-free interest rate	**n/a**	n/a	5.06%
Expected life (months)	**n/a**	n/a	60
Expected volatility	**n/a**	n/a	45%
Dividend yield	**n/a**	n/a	1.0%

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

Notes

[1] No new Original LEAP awards were granted in 2003 or 2004.

25 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves £m	Own shares Restated[1,2] £m	Profit and loss account Restated[1] £m	Total Restated[1] £m
Balance at 1 January 2002	115.0	805.2	238.6	2,824.7	(336.8)	(250.4)	(29.8)	3,366.5
2002 movements								
Ordinary shares issued in respect of acquisitions	0.2	–	–	8.0	–	–	–	8.2
Other ordinary shares issued	0.7	32.4	(42.9)	39.0	–	–	(4.9)[3]	24.3
Share issue/cancellation costs	–	(1.0)	–	(2.4)	–	–	–	(3.4)
Share cancellations	(0.2)	–	–	–	0.2	–	(8.3)	(8.3)
Currency translation movement	–	–	–	–	82.3	–	–	82.3
Retained profit for the financial year	–	–	–	–	–	–	13.1	13.1
Actuarial loss on defined benefit pension schemes	–	–	–	–	–	–	(52.8)	(52.8)
Net purchases of own shares by ESOP trusts	–	–	–	–	–	(61.8)	26.8	(35.0)
Balance at 31 December 2002	**115.7**	**836.6**	**195.7**	**2,869.3**	**(254.3)**	**(312.2)**	**(55.9)**	**3,394.9**
2003 movements								
Ordinary shares issued in respect of acquisitions	0.4	0.1	–	16.4	–	–	–	16.9
Share placement	2.1	98.1	–	–	–	–	–	100.2
Other ordinary shares issued	1.1	21.6	(65.7)	37.0	–	–	24.1[3]	18.1
Share issue/cancellation costs	–	(1.1)	–	(1.7)	–	–	–	(2.8)
Share cancellations	(0.6)	–	–	–	0.6	–	(20.2)	(20.2)
Currency translation movement	–	–	–	–	74.8	–	–	74.8
Retained profit for the financial year	–	–	–	–	–	–	131.6	131.6
Other movements	–	–	–	–	–	–	1.3	1.3
Actuarial gain on defined benefit schemes	–	–	–	–	–	–	14.0	14.0
Deferred tax on defined benefit pension pension schemes	–	–	–	–	–	–	10.0	10.0
Net disposals of own shares by ESOP trusts	–	–	–	–	–	4.4	24.5	28.9
Balance at 31 December 2003	**118.7**	**955.3**	**130.0**	**2,921.0**	**(178.9)**	**(307.8)**	**129.4**	**3,767.7**
2004 movements								
Ordinary shares issued	**1.1**	**46.9**	**(23.1)**	**10.2**	**–**	**–**	**(2.3)[3]**	**32.8**
Share issue/cancellation costs	**–**	**–**	**–**	**(0.3)**	**–**	**–**	**(0.5)**	**(0.8)**
Share cancellations	**(1.3)**	**–**	**–**	**–**	**1.3**	**–**	**(73.6)**	**(73.6)**
Currency translation movement	**–**	**–**	**–**	**–**	**52.1**	**–**	**–**	**52.1**
Retained profit for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**200.3**	**200.3**
Adjustment to pre-1998 goodwill written off to reserves	**–**	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**
Actuarial loss on defined benefit pension schemes	**–**	**–**	**–**	**–**	**–**	**–**	**(18.2)**	**(18.2)**
Deferred tax on defined benefit pension schemes	**–**	**–**	**–**	**–**	**–**	**–**	**3.3**	**3.3**
Net disposals of own shares by ESOP trusts	**–**	**–**	**–**	**–**	**–**	**30.1**	**(15.1)**	**15.0**
Transfer to goodwill	**–**	**–**	**(57.0)**	**(10.3)**	**–**	**–**	**–**	**(67.3)**
Balance at 31 December 2004	**118.5**	**1,002.2**	**49.9**	**2,920.6**	**(125.5)**	**(277.7)**	**226.5**	**3,914.5**

Other reserves at 31 December 2004 comprise: currency translation deficit £128.9 million (2003: £181.0 million, 2002: £255.8 million) and capital redemption reserve £3.4 million (2003: £2.1 million, 2002: £1.5 million).

The cumulative amount of goodwill written off against the Group's reserves, net of that relating to undertakings disposed of, is £1,154.0 million (2003: £1,157.2 million, 2002: £1,158.4 million).

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Ownership Plan ('ESOP') trusts 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 103 to 110.

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 2004 was 51,657,256 (2003: 57,439,271, 2002: 58,210,657) and £296.0 million (2003: £315.1 million, 2002: £276.2 million) respectively. The trusts received dividends on the shares held, as the right to dividends has not been waived by the trustees.

[3] 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.

25 Share owners' funds (continued)

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

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Profit for the year	**292.3**	208.4	75.6
Ordinary dividends payable	**(92.0)**	(76.8)	(62.5)
	200.3	131.6	13.1
Exchange adjustments on foreign currency net investments	**52.1**	74.8	82.3
Ordinary shares issued in respect of acquisitions	**–**	16.9	8.2
Share placement	**–**	100.2	–
Share issue/cancellation costs	**(0.8)**	(2.8)	(3.4)
Other share issues	**32.8**	18.1	24.3
Share cancellations	**(73.6)**	(20.2)	(8.3)
Adjustment to pre-1998 goodwill written off to reserves	**3.2**	–	–
Other movements	**–**	1.3	–
Actuarial (loss)/gain on defined benefit schemes	**(18.2)**	14.0	(52.8)
Deferred tax on defined benefit pension schemes	**3.3**	10.0	–
Net disposals/(purchases) of own shares by ESOP trusts	**15.0**	28.9	(35.0)
Transfer to goodwill	**(67.3)**	–	–
Net additions to equity share owners' funds	**146.8**	372.8	28.4
Opening equity share owners' funds	**3,767.7**	3,394.9	3,366.5
Closing equity share owners' funds	**3,914.5**	3,767.7	3,394.9

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

26 Acquisitions

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

	Book value of net assets acquired £m	Fair value adjust-ments £m	Fair value £m	Cost of acquisi-tion £m	Goodwill £m
Acquisitions and reforecasts	77.7	(11.2)	66.5	298.6	232.1

Goodwill above of £232.1 million includes £210.4 million in respect of the acquisition of subsidiary undertakings and £21.7 million in respect of associate undertakings. Cash consideration for acquisitions is analysed in note 11.

Fair value adjustments of £11.2 million arising on these acquisitions include £7.8 million of additional tax liabilities and £3.4 million of other liabilities.

27 Principal operating subsidiary undertakings

The principal subsidiary undertakings of the Group are:

	Country of Incorporation
J. Walter Thompson Company, Inc	US
GroupM Worldwide Inc	US
The Ogilvy Group, Inc	US
Young & Rubicam, Inc	US
WPP Finance Co Limited	UK
WPP Group Services S.A.	Belgium

With the exception of WPP Finance Co. Limited, which is involved in financing arrangements with other Group companies and WPP Group Services S.A. which acts as a co-ordination centre, all of these subsidiaries are operating companies. All of the above companies are 100% owned by the Group.

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

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

28 Reconciliation to Non-GAAP measures of performance

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

	2004 £m	2003 £m	2002 Restated[1] £m
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**529.2**	421.5	290.1
Goodwill amortisation and impairment	**78.5**	112.0	177.7
Headline PBIT	**607.7**	533.5	467.8
Net interest payable and similar charges	**70.7**	71.6	86.4
Interest cover on Headline PBIT	**8.6 times**	7.5 times	5.4 times
Interest cover on Headline PBIT (excluding FRS 17 interest)			
Headline PBIT	**607.7**	533.5	467.8
Net interest payable and similar charges on net borrowings	**61.2**	60.1	79.6
Interest cover (excluding FRS 17 interest)	**9.9 times**	8.9 times	5.9 times

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

	2004 £m	2003 £m	2002 Restated[1] £m
Profit on ordinary activities before taxation	**456.5**	349.9	193.0
Goodwill amortisation and impairment	**78.5**	112.0	177.7
Profits on disposal of fixed assets	**(3.0)**	–	(9.2)
Amounts written off fixed asset investments	**5.0**	–	19.9
Net interest charges on defined benefit pension schemes	**9.5**	11.5	6.8
Headline PBT	**546.5**	473.4	388.2
Taxation on profit on ordinary activities	**(140.2)**	(122.1)	(103.4)
Minority interests	**(24.0)**	(19.4)	(14.0)
Headline earnings	**382.3**	331.9	270.8
Ordinary dividends	**92.0**	76.8	62.5
Dividend cover on Headline earnings	**4.2 times**	4.3 times	4.3 times

Calculation of effective tax rate on Headline profit before tax:

	2004	2003	2002
Taxation	**(140.2)**	(122.1)	(103.4)
Taxation on Headline profit before tax	**(140.2)**	(122.1)	(103.4)
Headline PBT	**546.5**	473.4	388.2
Effective tax rate on Headline profit before tax	**25.7%**	25.8%	26.6%

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

28 Reconciliation to Non-GAAP measures of performance (continued)

Segmental margin analysis

Headline PBIT margins by geographical area were as follows:

	Revenue £m	Headline PBIT[2] £m	Margin (%)
North America	1,651.9	262.6	15.9
UK	728.5	81.9	11.2
Continental Europe	1,134.8	141.2	12.4
Asia Pacific, Latin America, Africa & Middle East	784.3	122.0	15.6
	4,299.5	607.7	14.1

Headline PBIT margins by operating sector were as follows:

	Revenue £m	Headline PBIT[2] £m	Margin (%)
Advertising and Media investment management	1,985.3	319.0	16.1
Information, insight & consultancy	744.8	73.9	9.9
Public relations & public affairs	445.2	62.4	14.0
Branding & identity, Healthcare and Specialist communications	1,124.2	152.4	13.6
	4,299.5	607.7	14.1

Headline PBIT margins before and after income from associates were as follows:

	Margin (%)	**2004 £m**	Margin (%)	2003 £m	Margin (%)	2002 Restated[1] £m
Revenue		**4,299.5**		4,106.0		3,908.3
Headline PBIT	**14.1**	**607.7**	13.0	533.5	12.0	467.8
Income from associates		**48.1**		40.5		30.0
Headline PBIT excluding income from associates	**13.0**	**559.6**	12.0	493.0	11.2	437.8

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs. The calculation of Headline PBIT is presented above.

Reconciliation of free cash flow for the year ended 31 December:

	2004 £m	2003 £m	2002 Restated[1] £m
Net cash inflow from operating activities	**690.0**	942.0	779.9
Plus:			
Dividends received from associates	**18.5**	15.6	9.4
Proceeds from the issue of shares[2]	**17.9**	18.1	24.4
Proceeds from sale of tangible fixed assets	**9.3**	8.7	10.2
Proceeds from disposal of investments[3]	**9.3**	11.0	3.3
Less:			
Movements in working capital and provisions	**(25.1)**	(320.6)	(222.9)
Loss on sale of tangible fixed assets	**(1.9)**	(0.9)	(2.6)
Purchase of tangible fixed assets	**(95.6)**	(93.9)	(100.5)
UK and overseas tax paid	**(101.3)**	(93.6)	(85.0)
Returns on investments and servicing of finance	**(73.3)**	(38.3)	(78.2)
Free cash flow[4]	**447.8**	448.1	338.0

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] Excludes £100.2 million of proceeds from share placement in 2003.

[3] Excludes proceeds of £75.0 million from disposal of interest in Zenith Optimedia Group in 2003.

[4] Elsewhere in this Annual Report, free cash flow in 2004 has been rounded to £448 million (2003: £447 million; 2002: £336 million). This is due to the components of the free cash flow reconciliation above being rounded to the nearest million in performing this calculation.

29 Subsequent events

On 7 March 2005, WPP completed the acquisition of Grey Global Group, Inc (Grey) in consideration for the issue of 78 million new WPP Ordinary Shares and $720 million in cash. Grey will be consolidated into the results of WPP from 7 March 2005.

Company balance sheet
As at 31 December 2004

	Notes	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Fixed assets				
Tangible assets	30	**3.1**	2.9	17.0
Investments	31	**6,704.5**	6,781.8	6,534.1
		6,707.6	6,784.7	6,551.1
Current assets				
Debtors (including amounts falling due after more than one year)	32	**430.3**	472.6	839.9
Cash at bank and in hand		**1.6**	8.3	10.8
		431.9	480.9	850.7
Creditors: amounts falling due within one year	33	**(683.9)**	(1,162.4)	(1,810.8)
Net current liabilities		**(252.0)**	(681.5)	(960.1)
Total assets less current liabilities		**6,455.6**	6,103.2	5,591.0
Creditors: amounts falling due after more than one year (including convertible bonds)	34	**(2,107.0)**	(1,880.7)	(1,706.2)
Net assets		**4,348.6**	4,222.5	3,884.8
Capital and reserves				
Called up share capital	35	**118.5**	118.7	115.7
Share premium account	35	**1,002.2**	955.3	836.6
Shares to be issued	35	**49.9**	130.0	195.7
Merger reserve	35	**2,956.6**	2,957.0	2,905.3
Other reserves	35	**93.6**	92.3	91.7
Own shares[2]	35	**–**	(307.8)	(312.2)
Profit and loss account	35	**127.8**	277.0	52.0
Equity share owners' funds		**4,348.6**	4,222.5	3,884.8

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

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts). Following the implementation of UITF 38, the Company has restated its balance sheet as at 31 December 2003 (to reduce net assets by £307.8 million) and 31 December 2002 (to reduce net assets by £312.2 million). There was no material impact on the profit and loss account in either year.

[2] Investments in own shares held by the ESOP Trusts.

Signed on behalf of the Board on 10 May 2005:

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 £57.8 million (2003: profit of £322.0 million, 2002: loss of £932.3 million) in respect of the Company. This includes dividend income received from subsidiaries of £116.5 million (2003: £370.9 million, 2002: £54.0 million) and an impairment charge of £nil (2003: £nil, 2002: £940.6 million).

Notes to the Company balance sheet

30 Tangible fixed assets

The movements in 2004 and 2003 were as follows:

Costs:	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 2003	3.2	0.3	24.5	28.0
Additions	0.6	–	5.2	5.8
31 December 2003	3.8	0.3	29.7	33.8
Additions	0.3	–	1.4	1.7
31 December 2004	**4.1**	**0.3**	**31.1**	**35.5**
Depreciation:				
1 January 2003	1.1	0.1	9.8	11.0
Charge	0.7	–	19.2	19.9
31 December 2003	1.8	0.1	29.0	30.9
Charge	0.8	0.1	0.6	1.5
31 December 2004	**2.6**	**0.2**	**29.6**	**32.4**
Net book value:				
31 December 2004	**1.5**	**0.1**	**1.5**	**3.1**
31 December 2003	2.0	0.2	0.7	2.9
1 January 2003	2.1	0.2	14.7	17.0

31 Fixed asset investments

The following are included in the net book value of fixed asset investments[1]:

	Subsidiary undertakings £m
1 January 2003	6,534.1
Additions	1,127.1
Disposals	(847.2)
Write-downs	(2.6)
Other movements	(29.6)
31 December 2003	6,781.8
Additions	1,048.3
Disposals	(1,045.9)
Write-downs	(0.3)
Other movements	(79.4)
31 December 2004	**6,704.5**

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

32 Debtors

The following are included in debtors:

	2004 £m	2003 £m	2002 £m
Amounts owed by subsidiary undertakings	**407.6**	429.4	800.8
Taxation and social security	**5.3**	5.0	5.3
Other debtors	**17.4**	38.2	33.8
	430.3	472.6	839.9

Included within amounts owed by subsidiary undertakings are amounts totalling £234.3 million (2003: £347.2 million, 2002: £nil) which fall due for repayment after more than one year.

33 Creditors: amounts falling due within one year

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

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Bank loans and overdrafts	**476.7**	548.9	52.7
Amounts due to subsidiary undertakings	**47.5**	455.6	1,671.0
Taxation and social security	**3.4**	5.4	1.8
Dividends proposed	**62.6**	52.2	42.5
Other creditors and accruals	**93.7**	100.3	42.8
	683.9	1,162.4	1,810.8

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

34 Creditors: amounts falling due after more than one year

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

	2004 £m	2003 £m	2002 £m
Convertible bonds	**446.2**	443.4	447.5
Bank loans	**458.8**	456.6	617.8
Amounts due to subsidiary undertakings	**1,185.9**	980.7	626.2
Other creditors and accruals	**16.1**	–	14.7
	2,107.0	1,880.7	1,706.2

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

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

	2004 £m	2003 £m	2002 £m
Between one and two years	**–**	–	227.4
Between two and three years	**446.2**	–	–
Between three and four years	**458.8**	443.4	–
Between four and five years	**–**	456.6	447.5
Over five years	**–**	–	390.4

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

35 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	Own shares Restated[1] £m	Profit and loss account £m
Balance at beginning of year	118.7	955.3	130.0	2,957.0	92.3	(307.8)	277.0
Ordinary shares issued	1.1	46.9	(23.1)	10.2	–	–	–
Share issue/ cancellation costs	–	–	–	(0.3)	–	–	(0.5)
Share cancellations	(1.3)	–	–	–	1.3	–	(73.6)
Transfer to investments	–	–	(57.0)	(10.3)	–	–	–
Transfers to other Group Companies[2]	–	–	–	–	–	307.8	(40.9)
Retained loss for the financial year	–	–	–	–	–	–	(34.2)
	118.5	**1,002.2**	**49.9**	**2,956.6**	**93.6**	**–**	**127.8**

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] During the year, the Board of WPP Group plc redesignated the sponsoring company of the Group's ESOP Trusts. Consequently, the combined balance sheets of these trusts were deconsolidated from the WPP Group plc company balance sheet with effect from that date.

Other reserves at 31 December 2004 comprise: currency translation deficit £37.2 million (2003: £37.2 million, 2002: £37.2 million), capital redemption reserve £3.4 million (2003: £2.1 million, 2002: £1.5 million) and capital reserve £127.4 million (2002: £127.4 million, 2002: £127.4 million).

At 31 December 2004 the Company's distributable reserves amounted to £127.8 million (2003: £236.1 million, 2002: £52.0 million). Further details of the Company's movements in share capital are shown in notes 24 and 25.

Reconciliation of movements in share owners' funds for the year ended 31 December 2004:

	2004 £m	2003 £m	2002 £m
Profit/(loss) for the year	**57.8**	322.0	(932.3)
Ordinary dividends payable	**(92.0)**	(76.8)	(62.5)
	(34.2)	245.2	(994.8)
Ordinary shares issued in respect of acquisitions	**–**	16.9	8.2
Share placement	**–**	100.2	–
Other ordinary shares issued	**35.1**	(6.0)	29.2
Share issue/cancellation costs	**(0.8)**	(2.8)	(3.4)
Share cancellations	**(73.6)**	(20.2)	(8.3)
Transfer to investments	**(67.3)**	–	–
Net disposals/(additions) of own shares	**–**	4.4	(61.8)
ESOP Trusts transferred to other Group Companies	**266.9**	–	–
Net additions/(reductions) to equity share owners' funds	**126.1**	337.7	(1,030.9)
Opening equity share owners' funds	**4,222.5**	3,884.8	4,915.7
Closing equity share owners' funds	**4,348.6**	4,222.5	3,884.8

Reconciliation to US Accounting Principles (unaudited)

The following is an unaudited summary of the significant adjustments to net income and shareowners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied. This summary has been prepared by management using their best knowledge and using their judgement of existing standards and interpretations of US GAAP and facts and circumstances as of the date of this report. Certain reclassifications have been made to the prior years' information to conform to the 2004 presentation.

An audited reconciliation of net income and share owners' funds measured under UK GAAP to US GAAP, including additional financial statement disclosures and further discussion of potential or actual differences that could apply, including presentational differences, will be included in the Company's Annual Report on Form 20-F to be filed with the Securities and Exchange Commission by 30 June 2005. The figures presented below are therefore subject to further change after the date of publication of the 2004 Annual Report and Accounts.

	Notes	2004 £m	2003 £m	2002 Restated[1] £m
		For the year ended 31 December		
Net income				
Profit attributable to ordinary share owners under UK GAAP		**292.3**	208.4	75.6
US GAAP adjustments:				
Reverse amortisation of goodwill	(a)	**42.5**	33.0	32.0
Amortisation of intangibles	(a)	**(28.5)**	(20.6)	(13.4)
Goodwill impairment	(a)	**(14.8)**	(16.9)	–
Contingent consideration deemed as compensation	(b)	**(90.5)**	(43.9)	(49.7)
Share-based incentive plans	(c)	**(4.0)**	(3.7)	1.4
Accounting for derivatives	(d)	**(0.3)**	(17.9)	48.9
Pension accounting	(e)	**(9.5)**	(9.8)	(5.5)
Accounting for associates	(f)	**–**	1.1	–
Accounting for minority interests	(g)	**(3.0)**	–	–
Employer payroll taxes	(h)	**2.0**	2.0	–
Tax items	(i)	**(26.9)**	(21.4)	(10.1)
		(133.0)	(98.1)	3.6
Net income as adjusted for US GAAP before the cumulative effect of change in accounting principle		**159.3**	110.3	79.2
Goodwill impairment upon adoption of SFAS 142	(a)	**–**	–	(25.7)
Net income as adjusted for US GAAP after the cumulative effect of change in accounting principle		**159.3**	110.3	53.5
Earnings per share before the cumulative effect of change in accounting principle				
Basic earnings per share as adjusted for US GAAP (p)	2	**14.0**	9.9	7.1
Diluted earnings per share as adjusted for US GAAP (p)	2	**13.7**	9.6	7.0
Earnings per share after the cumulative effect of change in accounting principle				
Basic earnings per share as adjusted for US GAAP (p)	2	**14.0**	9.9	4.8
Diluted earnings per share as adjusted for US GAAP (p)	2	**13.7**	9.6	4.7

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

	Notes	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
		As at 31 December		
Share owners' funds				
Share owners' funds under UK GAAP		**3,914.5**	3,767.7	3,394.9
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	(a)	**(227.9)**	16.3	357.5
Listed investments	(j)	**0.5**	(1.8)	–
Contingent consideration deemed as compensation	(b)	**(215.8)**	(125.3)	(81.4)
Accounting for derivatives	(d)	**34.7**	24.3	52.9
Pension accounting	(e)	**0.9**	(0.5)	8.7
Tax items	(i)	**(47.9)**	(21.0)	0.4
Accounting for associates	(f)	**1.1**	1.1	–
Accounting for minority interests	(g)	**(3.0)**	–	–
Employer payroll taxes	(h)	**4.0**	2.0	–
Proposed final ordinary dividend, not yet declared	(k)	**62.6**	52.2	42.5
Other		**(2.8)**	(3.0)	(3.2)
		(393.6)	(55.7)	377.4
Share owners' funds as adjusted for US GAAP		**3,520.9**	3,712.0	3,772.3

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Movement in share owners' funds under US GAAP

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Net income for the year under US GAAP	**159.3**	110.3	53.5
Prior-year final dividend	**(52.2)**	(42.5)	(35.2)
Current year interim dividend	**(29.4)**	(24.6)	(20.0)
Retained earnings for the year	**77.7**	43.2	(1.7)
Ordinary shares issued in respect of acquisitions	**–**	16.9	8.2
Share issue/cancellation costs	**(0.8)**	(2.8)	(3.4)
Other share issues	**32.8**	18.1	24.3
Share cancellations	**(73.6)**	(20.2)	(8.3)
Net disposals (purchases) of own shares by ESOP trusts	**15.0**	28.9	(35.0)
Transfer to goodwill	**(67.3)**	–	–
Share placement	**–**	100.2	–
Listed investments	**2.3**	(1.8)	5.3
Other movements	**3.2**	1.3	–
Exchange adjustments:			
– Revaluation of goodwill	**(243.2)**	(336.5)	(408.6)
– Foreign currency translation	**70.4**	74.8	85.6
Pension accounting	**(11.6)**	13.9	(51.2)
Goodwill write-back	**–**	–	–
Executive compensation	**4.0**	3.7	(1.4)
Net reductions to share owners' funds	**(191.1)**	(60.3)	(386.2)
Share owners' funds at 1 January	**3,712.0**	3,772.3	4,158.5
Share owners' funds at 31 December	**3,520.9**	3,712.0	3,772.3

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Notes to the Reconciliation to US Accounting Principles (unaudited)

1 Significant differences between UK and US accounting principles

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

(a) Goodwill and other intangibles
Capitalisation of goodwill
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, at the dates of acquisition and any net balance is treated as goodwill. Under UK GAAP, goodwill arising on acquisitions before 1 January 1998 was fully written off against share owners' funds, in accordance with the then preferred treatment under UK GAAP. In accordance with Financial Reporting Standard No. 10 (FRS 10) (Goodwill and Intangible Assets), goodwill arising on acquisitions on or after 1 January 1998 has been capitalised as an intangible asset. For certain acquisitions, where the directors consider it more appropriate, goodwill is amortised over its useful life, up to a 20-year period from the date of acquisition. The remaining goodwill and intangible assets of the Group are considered to have an indefinite economic life for the reasons described in the note on accounting policies in the financial statements.

Under US GAAP, goodwill is accounted for under SFAS 142, Goodwill and other Intangible Assets. SFAS 142 directs that goodwill and other intangible assets that have an indefinite useful life will not be amortised but rather will be tested at least annually for impairment. Intangible assets that have finite lives will be amortised over their useful lives. Therefore, the amortisation of intangibles adjustment represents amortisation of intangible assets that have finite lives.

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. This resulted in a purchase price which differed by £265 million and a corresponding difference in the gross carrying amount of goodwill.

Impairment
The Group's indefinite lived intangible assets consist of goodwill and corporate brand names. The carrying value of these assets is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Under UK GAAP, an impairment charge is required for both goodwill and other indefinite lived intangible assets when the carrying amount exceeds the 'recoverable amount'. The term 'recoverable amount' as used in UK GAAP has the same meaning as 'fair value' under US GAAP, with fair value usually determined as the present value of future cash flows. Impairment charges recorded under UK GAAP amounted to £36.0 million, £79.0 million and £145.7 million respectively, in 2004, 2003 and 2002. The impairment charges relate to certain under-performing businesses during each respective period where the impact of the economic climate on these businesses during each respective period was sufficiently severe to indicate impairment to the carrying value of goodwill. For further details on the Company's annual impairment review, see note 13 to the consolidated financial statements.

Additional impairment charges of £14.8 million (£11.1 million related to Branding and identity, Healthcare and Specialist communications, £3.2 million related to Advertising and Media investment management, £0.3 million related to Public relations and public affairs and £0.2 million related to Information, insight and consultancy), £16.9 million (£10.4 million related to Information, insight and consultancy and £6.5 million related to Branding and identity, Healthcare and Specialist communications) and £25.7 million (related to Branding and identity, Healthcare and Specialist communications) were recorded under US GAAP in 2004, 2003 and 2002, respectively. The 2004 and 2003 charges were taken in connection with the annual impairment test. The 2002 charge was taken on the implementation of SFAS 142. Under UK GAAP, substantially all such impaired goodwill had been amortised or included in the write-off against share owners' funds as of 1 January 1998, as more fully described in the note on accounting policies in the financial statements.

Under US GAAP, SFAS 142 distinguishes between different impairment tests for goodwill and other indefinite lived intangible assets.

Corporate Brand Names.
For indefinite lived intangible assets, if the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognised in an amount equal to that excess. Consequently there is no GAAP difference related to the impairment of other indefinite lived intangible assets (i.e. corporate brand names).

Goodwill.
For goodwill, SFAS 142 prescribes a two-step impairment test:
■ The *first step* of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. The Group uses the discounted cash flow method in determining the fair value of each reporting unit and also gives consideration to the overall market capitalisation of the Group. There are no differences in the performance of this step between UK GAAP and US GAAP, other than the amounts tested may differ due to GAAP differences affecting the carrying amounts of goodwill.
■ If the carrying amount of a reporting unit exceeds its fair value, the *second step* of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognised in a business combination is determined. That is, the Group allocates the fair value of the reporting unit to all of the assets and liabilities of that unit (including any previously unrecognised intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

The reporting units of the Group used in this assessment are its operating segments or one level below (i.e. individual offices). Where reporting units are represented by individual offices, those reporting units are assessed for aggregation for purposes of testing for impairment of goodwill. Reporting units are aggregated if they supply similar services, provide these services in a similar manner, have like types and classes of customers and have similar economic characteristics.

Under UK GAAP, the impairment test is only a one step test, in accordance with FRS 11. This could give rise to a GAAP difference related to the impairment of goodwill.

Business combinations
Under UK GAAP, the Group carries corporate brand names as intangible fixed assets in the balance sheet. The initial recognition of the JWT 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 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. These corporate brand names have been determined to have an indefinite useful life based on their institutional nature, 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.

Under US GAAP, in accordance with the provisions of SFAS 141, Business Combinations, the allocation of purchase consideration should include recognition of the fair value of identifiable intangible assets, as applicable, such as corporate brand and trade names, customer relationships and proprietary tools. The Company generally assesses the fair value of identifiable intangible assets based on the net present value of expected future cash flows to be derived. As at 31 December 2004 and 2003, the components of our intangible assets were as follows:

		As at 31 December 2004			As at 31 December 2003		
	Weighted average amortisation period	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m	Gross carrying amount £m	Accumulated amortisation £m	Net book value £m
Goodwill		4,825.0	(467.6)	4,357.4	5,017.2	(484.5)	4,532.7
Corporate brand names		775.0	(69.7)	705.3	775.0	(69.7)	705.3
Other intangible assets subject to amortisation:							
Trade names	13	72.8	(11.2)	61.6	65.8	(5.8)	60.0
Customer-related	4	80.3	(50.5)	29.8	79.6	(27.5)	52.1
Purchased software and other proprietary tools	7	11.4	(8.5)	2.9	11.2	(7.2)	4.0
Total subject to amortisation	6	164.5	(70.2)	94.3	156.6	(40.5)	116.1

The estimated aggregate amortisation expense for each of the next five years is as follows: £20.3 million in 2005, £14.1 million in 2006, £12.1 million in 2007, £9.1 million in 2008 and £7.0 million in 2009.

Under UK GAAP, goodwill arising on acquisitions is calculated at the historical exchange rate when each transaction is initially accounted for, and is therefore not retranslated at the period end. Under US GAAP, goodwill is retranslated at the end of each period presented, resulting in foreign exchange loss of £243.2 million in 2004 (2003: loss of £336.5 million, 2002: loss of £408.6 million) being recognised in share owners' funds.

1 Significant differences between UK and US accounting principles (continued)

Tangible fixed assets

The Group evaluates the carrying value of its tangible fixed assets whenever events or circumstances indicate their carrying value may exceed their recoverable amount, in accordance with the provisions of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss would be recognised when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows if the asset is expected to be held and used.

(b) Contingent consideration deemed as compensation

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 underlying contingency is resolved and consideration is issued or becomes issuable. At 31 December 2004, the Group's liabilities for vendor payments under UK GAAP totalled £298.6 million (2003: £215.7 million, 2002: £237.8 million). As these liabilities are represented by goodwill arising on acquisitions, there is no net effect on share owners' funds. Under US GAAP, however, a balance sheet classification difference arises such that liabilities and goodwill would each be reduced by the amount indicated as of each year end.

In certain transactions the Group has considered that there was a commercial need to tie in vendors to the businesses acquired; however the directors believe that, in substance, payments made under earnouts represent purchase consideration rather than compensation for services. Under US GAAP, payments made to vendors which are conditional upon them remaining in employment with the company under earnout are required to be treated as compensation, except in rare instances, and the anticipated compensation expense is therefore accrued on a systematic basis over the earnout period. This gives rise to recognition of additional compensation expense of £90.5 million in 2004 (2003: £43.9 million; 2002: £49.7 million) under US GAAP.

(c) Share based incentive plans

Under UK GAAP, the part of executive compensation satisfied in WPP ordinary shares is charged through the profit and loss account based on the fair value of the shares at the date of grant. Under US GAAP, such compensation is also measured at the fair value of WPP shares; however the relevant date is the "measurement date" rather than the grant date. The measurement date is often the grant date; however, it may be later than the grant date in plans with variable terms that depend on events that occur after the grant date. Certain of the Group's executive compensation plans are considered to be variable plans under US GAAP, and consequently, compensation cost is measured when either certain performance conditions are met or when the awards vest with the employee.

(d) Accounting for derivative instruments and hedging activities

Under UK GAAP, gains or losses on forward foreign exchange contracts are deferred and recognised in the profit and loss account or as adjustments to the carrying amount of fixed assets. Interest differentials as a result of interest rate swaps are recognised by adjusting net interest payable over the periods of the contract. Under US GAAP, the Group accounts for derivative instruments under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. The Statement requires 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. It also 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.

(e) Pension accounting

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

The differences in accounting policy are primarily due to differing treatment of actuarial gains and losses which arise over the accounting period (as a result of investment returns and demographic assumptions differing from those previously assumed, and also the effect of changing actuarial assumptions). Under FRS 17, these actuarial gains and losses are immediately recognised in the Statement of Total Recognised Gains and Losses ('STRGL'), whereas under SFAS 87 the actuarial gains and losses that at the beginning of the year exceed 10% of the greater of the value of the assets and the projected benefit obligation, are amortised over the future working lifetime of the scheme members. Similarly, any related deferred tax effect recognised in the STRGL under UK GAAP is reversed under US GAAP. In 2004, deferred taxes recognised in the STRGL amounted to £3.3 million (2003: £10.0 million; 2002: £nil).

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

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

The 2004 financial statements reflect a £9.5 million (2003: £9.8 million; 2002: £5.5 million) difference in the defined benefit pensions charge between UK GAAP and US GAAP. This is largely due to the fact that the Group's defined benefit schemes have experienced actuarial losses in recent years, primarily due to poor investment returns. The US GAAP charges therefore include an amortisation component in respect of these losses, which is not reflected in the UK GAAP charge.

(f) Accounting for associates

Under UK GAAP, the consolidated profit and loss account includes the Group's share of the profits less losses of associated undertakings. Except in certain circumstances, the equity method continues to be applied even if such application results in an interest in net liabilities. Under US GAAP, the application of equity method accounting is ordinarily discontinued when the investment is reduced to zero and additional losses are not provided for unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. In 2004, £nil (2003: £1.1 million; 2002: £nil) of associate losses were reversed.

(g) Accounting for minority interests

Under UK GAAP, the consolidated profit and loss account includes the minority interest holders' share of the profits less losses of associated consolidated subsidiary undertakings as minority interest expense. Under US GAAP, the allocation of loss is ordinarily discontinued when the minority interest is reduced to zero and additional losses are not allocated to the minority interest holder unless they have guaranteed a portion of the obligations of the consolidated subsidiary or are otherwise committed to provide further financial support for the consolidated subsidiary. In 2004, £3.0 million (2003: £nil; 2002: £nil) of minority interest losses in consolidated subsidiaries were reversed.

(h) Employer payroll taxes

Under UK GAAP, provisions for National Insurance contributions are required to be measured initially at the date of grant of share options and recognised over the vesting period. Under US GAAP, National Insurance contributions are to be recognised on the date of the event triggering the measurement and payment of the contribution, which is generally the exercise date.

(i) Tax items

Deferred taxes

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

Treatment of pre-acquisition losses

Under UK GAAP, the tax effect of the utilisation of pre-acquisition losses may be taken to the profit and loss account in certain circumstances. Under US GAAP, the tax effect of the utilisation of pre-acquisition losses is recorded to goodwill. In 2004, the adjustment for tax items includes £6.5 million (2003: £30.3 million; 2002: £nil) of tax expense resulting from the utilisation of pre-acquisition losses. A corresponding adjustment was recorded to goodwill.

(j) Listed investments

Under UK GAAP, the carrying value of listed investments, where these represent an interest of less than 20%, is determined as cost less any provision for permanent impairment. Under US GAAP, such investments are considered to be available-for-sale securities and are marked to market and any resulting unrealised gain or loss is taken to share owners' funds.

(k) Proposed final ordinary dividend, not yet declared

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.

2 Earnings per share – reconciliation from UK to US GAAP

Both basic and diluted earnings per share under US GAAP have been calculated by dividing the net income as adjusted for US GAAP differences by the weighted average number of shares in issue during the year. For the years ended 31 December 2004, 2003 and 2002, both the $287.5 million convertible loan notes and the £450 million convertible bond were accretive to earnings per share and therefore excluded from the calculation. Had the convertible bonds been dilutive to earnings per share, incremental shares attributable to the assumed conversion of the bonds would have increased diluted shares outstanding by 58.2 million shares as at the end of each year. In addition, options to purchase 18.4 million, 33.6 million and 19.8 million ordinary shares were outstanding at 31 December 2004, 2003 and 2002, respectively but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the shares and, therefore, the effect would be antidilutive.

3 Accounting for stock options

The Company applies US Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, when accounting for its stock option plans. The Company has also adopted the disclosure requirements of SFAS 148, Accounting for Stock-Based Compensation – Transition and Disclosure. 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 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:

	2004	2003	2002
Net income as adjusted for US GAAP before the cumulative change in accounting principle			
As reported (£m)	**159.3**	110.3	79.2
Add back: Stock-based employee compensation expense included in reported net income, net of tax	**25.9**	14.1	29.5
Deduct: Total fair value of stock-based employee compensation expense, net of tax	**(53.3)**	(37.8)	(57.4)
Pro forma (£m)	**131.9**	86.6	51.3
Net income as adjusted for US GAAP after the cumulative effect of change in accounting principle			
As reported (£m)	**159.3**	110.3	53.5
Pro forma (£m)	**131.9**	86.6	25.6
Earnings per share before the cumulative effect of change in accounting principle			
Basic earnings per share per US GAAP:			
As reported (p)	**14.0**	9.9	7.1
Pro forma (p)	**11.6**	7.8	4.6
Diluted earnings per share per US GAAP:			
As reported (p)	**13.7**	9.6	7.0
Pro forma (p)	**11.4**	7.6	4.5
Earnings per share after the cumulative effect of change in accounting principle			
Basic earnings per share per US GAAP:			
As reported (p)	**14.0**	9.9	4.8
Pro forma (p)	**11.6**	7.8	2.3
Diluted earnings per share per US GAAP:			
As reported (p)	**13.7**	9.6	4.7
Pro forma (p)	**11.4**	7.6	2.3

4 Reconciliation of consolidated statements of cash flows

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

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

A reconciliation between the consolidated statements of cash flows presented in accordance with UK GAAP and US GAAP is shown below:

	For the year ended 31 December		
	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m
Operating activities			
Net cash inflow from operating activities under UK GAAP	**690.0**	942.0	779.9
Dividends received from associates	**18.5**	15.6	9.4
Interest and similar charges paid	**(99.7)**	(52.8)	(98.9)
Interest received	**48.9**	30.2	32.7
UK and overseas tax paid	**(101.3)**	(93.6)	(85.0)
Net cash provided by operating activities under US GAAP	**556.4**	841.4	638.1
Investing activities			
Capital expenditure and financial investment under UK GAAP	**(86.3)**	(85.2)	(90.3)
Acquisitions and disposals	**(208.9)**	(344.5)	(277.3)
Net cash used in investing activities under US GAAP	**(295.2)**	(429.7)	(367.6)
Financing activities			
Net cash inflow from financing under UK GAAP	**52.8**	116.8	146.3
Movements in overdrafts	**30.9**	113.9	(131.7)
Equity dividends paid	**(81.7)**	(67.0)	(55.6)
Dividends paid to minorities	**(22.5)**	(15.7)	(12.0)
Net cash provided from/(used in) financing activities under US GAAP	**(20.5)**	148.0	(53.0)
Translation difference	**(44.6)**	(19.3)	(0.4)
Net increase in cash and cash equivalents under US GAAP	**196.1**	540.4	217.1
Cash and cash equivalents under US GAAP at the beginning of the period	**1,419.9**	879.5	662.4
Cash and cash equivalents under US GAAP at the end of the period	**1,616.0**	1,419.9	879.5

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

5 New US GAAP accounting pronouncements

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

(i) Adopted in the current year:
FIN 46R
In December 2003, the FASB issued a revision to FASB Interpretation 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51 (FIN 46R) which requires a variable interest entity (VIE) to be consolidated by a company that will absorb a majority of the VIE's expected losses, receive a majority of the entity's expected individual returns, or both, as a result of ownership, contractual or other financial interest in the VIE.

Prior to the adoption of FIN 46R, VIEs were generally consolidated by companies owning a majority voting interest in the VIE. The consolidation requirements of FIN 46R applied immediately to VIEs created after 31 January 2003, however, the FASB deferred the effective date for VIEs created before 1 February 2003 to the first reporting period ended after 15 March 2004. Adoption of the provisions of FIN 46R prior to the deferred effective date was permitted. The adoption of FIN 46R did not have a material impact on the Group.

(ii) To be adopted in future periods
EITF 03-01
In March 2004, the Emerging Issues Task Force reached a consensus on Issue 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 is applicable to (a) debt and equity securities within the scope of SFAS 115, (b) debt and equity securities within the scope of SFAS 124 and that are held by an investor that reports a performance indicator, and (c) equity securities not within the scope of SFAS 115 and not accounted for under APB 18's equity method (e.g. investments in private companies). EITF 03-01 provides a step model to determine whether an investment is impaired and if impairment is other-than-temporary. In addition, it requires that investors provide certain disclosures for cost method investments and, if applicable, other information related specifically to cost method investments, such as the aggregate carrying amount of cost method investments, the aggregate amount of cost method investments that the investor did not evaluate for impairment because an impairment indicator was not present, and the situations under which the fair value of a cost method investment is not estimated. The disclosures related to cost method investments should not be aggregated with other types of investments. The effective date for the prospective application of the EITF 03-01 impairment model to all current and future investments has been delayed by FASB Staff Position EITF 03-01-1. The required disclosures have been included in our financial statements.

SFAS 123R
In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R replaces SFAS 123 and supersedes APB 25. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognised in the financial statements at fair value and that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R is effective for the Group from 1 January 2006. SFAS 123R requires public companies to account for share-based payments using the modified-prospective method and permits public companies to also account for share-based payments using the modified-retrospective method. Under the modified-prospective method, from the effective date, compensation cost is recognised based on the requirements of SFAS 123R for all new share-based awards and based on the requirements of SFAS 123 for all awards granted prior to the effective date of SFAS 123R that remain unvested on the effective date. The modified-retrospective method permits companies to restate, based on the amounts previously recognised under SFAS 123 for pro forma disclosure purposes, either all prior periods presented or prior interim periods in the year of adoption. The SFAS 123 pro forma disclosures given above show the impact of the Group adopting SFAS 123R in prior periods. The Group has yet to determine whether it will adopt the modified-retrospective method.

SFAS 153
In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets. SFAS 153 amends APB Opinion 29 replacing the exception from having to apply the fair value accounting provisions of APB 29 for nonmonetary exchanges of similar productive assets with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for the first reporting period beginning after 15 June 2005. We do not believe that the adoption of SFAS 153 will have a material impact on the Group's consolidated results of operations or financial position.

Five-year summary

	2004 £m	2003 Restated[1] £m	2002 Restated[1] £m	2001 £m	2000 £m
Profit and loss					
Turnover (billings)	**19,598.0**	18,621.3	18,028.7	20,886.9	13,949.4
Revenue	**4,299.5**	4,106.0	3,908.3	4,021.7	2,980.7
Operating profit	**484.6**	415.3	260.1	505.5	379.4
Profit on ordinary activities before taxation	**456.5**	349.9	193.0	411.0	365.7
Headline PBT[2]	**546.5**	473.4	388.2	493.6	382.2
Profit attributable to ordinary share owners	**292.3**	208.4	75.6	271.2	244.7
Balance sheet					
Fixed assets	**6,518.8**	6,386.4	6,050.8	6,376.2	5,389.0
Net current liabilities	**(421.1)**	(590.9)	(524.3)	(782.4)	(529.4)
Creditors: amounts falling due after more than one year	**(1,852.6)**	(1,691.1)	(1,837.5)	(1,711.5)	(1,279.6)
Provisions for liabilities and charges (including pension provision)	**(279.0)**	(288.6)	(255.3)	(241.4)	(185.9)
Net assets	**3,966.1**	3,815.8	3,433.7	3,640.9	3,394.1
Net debt	**(300.4)**	(361.5)	(722.7)	(885.1)	(24.6)
Average net debt	**(810.0)**	(1,222.0)	(1,343.0)	(834.0)	(423.0)

		2004	2003	2002	2001	2000
Our people						
Revenue per employee (£000)		**74.4**	79.6	77.5	79.7	82.4
Gross profit per employee (£000)		**70.5**	75.0	73.2	75.1	75.7
Average headcount		**57,788**	51,604	50,417	50,487	36,157
Share information						
Headline[3]	– basic earnings per ordinary share	**33.6p**	29.8p	24.4p	32.1p	31.3p
	– diluted earnings per ordinary share	**32.3p**	29.0p	23.8p	30.9p	30.3p
Standard	– basic earnings per ordinary share	**25.7p**	18.7p	6.8p	24.6p	29.3p
	– diluted earnings per ordinary share	**25.0p**	18.2p	6.7p	23.7p	28.4p
Dividends per share		**7.78p**	6.48p	5.40p	4.50p	3.75p
Share price	– high	**643p**	596p	811p	889p	1,324p
	– low	**469.5p**	320p	391p	460p	693p
Market capitalisation at year-end (£m)		**6,792.0**	6,513.1	5,491.5	8,736.8	9,631.2

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts). 2000 and 2001 have not been restated.

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

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

The information on this page is unaudited.

Unaudited consolidated profit and loss account: euro illustration

For the year ended 31 December 2004

	2004 €m	2003 €m	2002 Restated[1] €m
Turnover (billings)	**28,885.5**	26,907.8	28,683.7
Cost of sales	**(22,548.5)**	(20,974.6)	(22,465.6)
Revenue	**6,337.0**	5,933.2	6,218.1
Direct costs	**(331.8)**	(342.6)	(347.2)
Gross profit	**6,005.2**	5,590.6	5,870.9
Operating costs excluding goodwill amortisation and impairment	**(5,180.5)**	(4,878.2)	(5,174.4)
Goodwill amortisation and impairment – subsidiaries	**(110.5)**	(112.3)	(282.7)
Operating costs	**(5,291.0)**	(4,990.5)	(5,457.1)
Operating profit	**714.2**	600.1	413.8
Income from associates	**70.9**	58.5	47.7
Goodwill amortisation and impairment – associates	**(5.1)**	(49.5)	–
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**780.0**	609.1	461.5
Profit on disposal of fixed assets	**4.4**	–	14.6
Amounts written off fixed asset investments	**(7.4)**	–	(31.7)
Net interest payable and similar charges on net borrowings	**(90.2)**	(86.9)	(126.6)
Net interest charges on defined benefit pension schemes	**(14.0)**	(16.6)	(10.8)
Net interest payable and similar charges	**(104.2)**	(103.5)	(137.4)
Profit on ordinary activities before taxation	**672.8**	505.6	307.0
Taxation on profit on ordinary activities	**(206.6)**	(176.4)	(164.5)
Profit on ordinary activities after taxation	**466.2**	329.2	142.5
Minority interests	**(35.4)**	(28.0)	(22.3)
Profit attributable to ordinary share owners	**430.8**	301.2	120.2
Ordinary dividends	**(135.6)**	(111.0)	(99.4)
Retained profit for the year transferred to reserves	**295.2**	190.2	20.8

	2004	2003	2002
Headline PBIT[2]	**895.6**	770.9	744.2
Headline PBIT[2] margin	**14.1%**	13.0%	12.0%
Headline PBT[2]	**805.4**	684.1	617.6

Headline earnings per share[3]			
Basic earnings per ordinary share	**49.5¢**	43.1¢	38.8¢
Diluted earnings per ordinary share	**47.6¢**	41.9¢	37.9¢

Standard earnings per share			
Basic earnings per ordinary share	**37.9¢**	27.0¢	10.8¢
Diluted earnings per ordinary share	**36.8¢**	26.3¢	10.7¢

The consolidated profit and loss account and balance sheet have been presented in euros for illustrative purposes only using the approximate average rate for the year for the profit and loss account (2004: €1.4739 = £1, 2003: €1.4450 = £1, 2002: €1.5910 = £1) and the rate in effect on 31 December for the balance sheet (2004: €1.4133 = £1, 2003: €1.4198 = £1, 2002: €1.5345 = £1). This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into euros at the rates indicated.

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

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

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

Unaudited consolidated balance sheet: euro illustration

As at 31 December 2004

	2004 €m	2003 Restated[1] €m	2002 Restated[1] €m
Fixed assets			
Intangible assets:			
Corporate brands	**1,342.6**	1,348.8	1,457.8
Goodwill	**6,848.4**	6,687.7	6,762.5
Tangible assets	**471.8**	489.3	579.0
Investments	**550.2**	541.6	485.7
	9,213.0	9,067.4	9,285.0
Current assets			
Stocks and work in progress	**311.8**	382.8	447.5
Debtors	**3,784.3**	3,399.7	3,462.4
Trade debtors within working capital facility:			
Gross debts	**771.2**	720.5	591.9
Non-returnable proceeds	**(368.9)**	(398.1)	(333.6)
	402.3	322.4	258.3
Current asset investments (short-term bank and escrow deposits)	**344.8**	570.5	292.2
Cash at bank and in hand	**1,939.1**	1,445.5	1,057.4
	6,782.3	6,120.9	5,517.8
Creditors: amounts falling due within one year (including convertible bonds)	**(7,377.4)**	(6,959.9)	(6,322.3)
Net current liabilities	**(595.1)**	(839.0)	(804.5)
Total assets less current liabilities	**8,617.9**	8,228.4	8,480.5
Creditors: amounts falling due after more than one year (including convertible bonds)	**(2,618.3)**	(2,401.0)	(2,819.7)
Provisions for liabilities and charges	**(129.0)**	(141.6)	(108.2)
Net assets excluding pension provision	**5,870.6**	5,685.8	5,552.6
Pension provision	**(265.4)**	(268.2)	(283.6)
Net assets including pension provision	**5,605.2**	5,417.6	5,269.0
Capital and reserves			
Called up share capital	**167.5**	168.5	177.6
Share premium account	**1,416.4**	1,356.3	1,283.8
Shares to be issued	**70.5**	184.6	300.3
Merger reserve	**4,127.7**	4,147.2	4,402.9
Other reserves	**(177.4)**	(254.0)	(390.2)
Our shares[2]	**(392.5)**	(437.0)	(479.1)
Profit and loss account	**320.1**	183.7	(85.8)
Equity share owners' funds	**5,532.3**	5,349.3	5,209.5
Minority interests	**72.9**	68.3	59.5
Total capital employed	**5,605.2**	5,417.6	5,269.0

Notes

[1] Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

[2] Investments in our shares held by the ESOP Trusts.

Impact of IFRS on financial statements

For the year ended 31 December 2004

WPP Group plc (WPP) currently prepares its primary financial statements under UK Generally Accepted Accounting Practice (UK GAAP). For periods beginning on or after 1 January 2005, all listed companies in the European Union, including WPP, are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS). WPP's first IFRS results will be its interim results for the six months ending 30 June 2005 and the Group's first Annual Report under IFRS will be for the year ending 31 December 2005. WPP's date of transition to IFRS is 1 January 2004 (the transition date).

The financial information contained on pages 162 to 168 has been prepared by management using their best knowledge and judgement of the expected standards and interpretations of the International Accounting Standards Board (IASB), facts and circumstances, and accounting policies that will be applied when the company prepares its first complete set of IFRS financial statements as at 31 December 2005. Therefore, until such time, the possibility cannot be excluded that the comparative information included in that first complete set of IFRS financial statements may not be consistent with the disclosures below. Moreover, attention is drawn to the fact that, under IFRSs, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the company's financial position, results of operations and cash flow.

The following analysis has been prepared substantially on the basis of all IAS and IFRS, and related interpretations, published by the IASB, and currently in issue. Certain of these standards are subject to ongoing amendment by the IASB, and subsequent approval by the European Commission, and are therefore subject to possible change. Consequently, the information contained within pages 162 to 168 may also require amendment at a future date.

In preparing this financial information, the Group has assumed that the Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures will, in due course, be endorsed by the European Commission.

The effect that the transition from UK GAAP to IFRS would have on the Group's reported financial position, financial performance and cash flows for 2004 is explained in the following schedules included on pages 162 to 168:

- IFRS 1 exemptions
- Summary unaudited financial statements
- Key impact analysis
- Reconciliations of:
  - Income statement for the year ended 31 December 2004
  - Balance sheet as at 31 December 2004
  - Cash flow statement for the year ended 31 December 2004

The financial information presented is unaudited.

IFRS 1 exemptions

IFRS 1 (First-time adoption of International Financial Reporting Standards) allows a number of exemptions from the full requirements of IFRS for those companies adopting IFRS for the first time. WPP has taken advantage of certain of these exemptions as follows:

Financial instruments

The Group has taken advantage of the exemption available under IFRS 1 not to apply IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation) in respect of the year ended 31 December 2004. UK GAAP has continued to be applied in accounting for financial instruments in this period. The Group will adopt IAS 39 and IAS 32 with effect from 1 January 2005 and consequently restate the balance sheet at that date in accordance with the requirements of these standards, which will generally mean a recognition of financial instruments at fair value.

Business combinations

The Group has elected not to apply IFRS 3 (Business combinations) retrospectively to business combinations that completed prior to 1 January 2004.

Share-based payments

IFRS 2 applies to all share-based payments granted since 7 November 2002, but the Group has elected for full retrospective restatement as this better represents the ongoing charge to the income statement.

Presentation of financial information

The primary financial statements contained on pages 165 to 167 have been presented substantially in accordance with the requirements of IAS 1 (Presentation of Financial Statements). This presentation may require further modification in the event that further guidance is published or as practice develops.

Summary unaudited financial statements

Summary reported income statement:

	2004 UK GAAP	2004 IFRS
Revenue	£4,300m	£4,300m
PBIT	£529m	£507m
PBIT margin	12.3%	11.8%
PBT	£457m	£434m
Earnings	£292m	£273m
Diluted earnings per share	25.0p	23.4p

Headline PBIT, Headline PBT and Headline earnings

As a result of the change in presentation in the income statement in respect of income from associates, as well as other changes described below, the Group has redefined certain of its key performance metrics or 'Headline' profits and margins. An analysis of how the Group will calculate these under IFRS is presented on page 168.

	2004 UK GAAP	2004 IFRS
Revenue	£4,300m	£4,300m
Headline PBIT	£608m	£560m
Headline PBIT margin	14.1%	13.0%
Headline PBT	£537m[1]	£490m
Headline earnings	£373m[1]	£328m
Headline diluted earnings per share	31.6p[1]	27.9p

Notes

[1] Restated to include interest on defined benefit pension schemes of £10 million as a deduction from Headline profits.

Summary balance sheet

	2004 UK GAAP	2004 IFRS
Non-current assets	£6,519m	£5,959m
Net current liabilities	£(421)m	£(445)m
Net assets	£3,966m	£3,057m
Total capital employed	£3,966m	£3,057m

Key impact analysis

The principal differences between UK GAAP and IFRS as they apply to WPP are set out below.

Changes in presentation of financial statements

The primary financial statements on pages 165 to 167 have been prepared substantially in accordance with IAS 1 (Presentation of Financial Statements). The most significant presentational differences arising from this change in format are as follows:

Income from associates

In the current income statement format, in accordance with UK GAAP, the Group separately presents its share of operating profit, interest, minority interests and tax from associate undertakings. Under IAS 1, these results are aggregated into a single line in the income statement. The effect is to reduce reported profit before interest and taxes by £19 million in 2004, although there is no impact on earnings.

Working capital facility

In the balance sheet, the Group has historically presented its working capital facility (the advance of cash financing against which certain trade debts have been assigned) as a deduction from debtors, in accordance with the 'linked presentation' required by FRS 5 (Reporting the substance of transactions). Under IFRS this presentation is not permitted, and the cash advance is shown as a bank borrowing within creditors: amounts falling due within one year. As a result of this change, net debt is restated to include this facility as a borrowing, whereas previously it was treated as a reduction in working capital. The impact is to increase net debt at 31 December 2004 by £261 million to £561 million. The cash flows of the Group in 2004 are unaffected by this change. There is also no change to the income statement presentation of the charges on this facility which are included in finance costs.

Changes in accounting policies

IFRS 2 share-based payment

Under UK GAAP, where the Group grants share options at a strike price equal to or greater than the market price on the date of the grant, no compensation expense is recognised. For share awards other than stock options, the charge to the Group's income statement is based on the intrinsic value (market value on grant date) of the award, spread over the relevant performance period, in accordance with UITF 38 (Accounting for ESOP trusts). IFRS 2 requires that share-based payments (including share options) are recognised in the income statement as an expense, spread over the relevant vesting period using a fair value model. The Group has used a Black-Scholes valuation model for this purpose.

IFRS 2 permits prospective adoption for grants made after November 2002, but the Group has chosen to adopt IFRS 2 on a full retrospective basis, for all option and share award grants as the resulting charge better reflects the ongoing impact on the Group. The impact on the income statement for the year ended 31 December 2004 is an after-tax charge of £27 million.

Deferred tax is provided based upon the expected future tax deductions relating to share-based payment transactions, and is recognised over the vesting period of the relevant share award schemes. For the year ended 31 December 2004, this results in an additional deferred tax credit to the income statement of £2 million.

IFRS 3 business combinations

The Group has elected not to apply IFRS 3 retrospectively to business combinations completed prior to 1 January 2004, an exemption permitted by IFRS 1.

IFRS 3 prohibits amortisation of goodwill and instead requires annual impairment testing. Under UK GAAP, WPP amortises a number of acquisitions where the life of the goodwill is determined to be finite. In the IFRS financial information presented, this amortisation has been reversed from the date of transition and the relevant goodwill tested for impairment at 31 December 2004.

The Group has also conducted an impairment review of goodwill at 1 January 2004, in accordance with the requirements of IAS 36 (Impairment of Assets).

The impact on the income statement for the year ended 31 December 2004 is to eliminate goodwill amortisation of £42.5 million. No additional impairment of goodwill arose at 1 January 2004, however there was additional impairment of £5 million for the year ended 31 December 2004.

When the Group makes acquisitions, deferred tax assets are established in relation to tax losses and other tax attributes to the extent that it is probable that they will be utilised in the future. If the performance and profits of acquisitions are higher than originally anticipated then the Group may recognise the additional tax benefit of unbooked tax attributes in the IFRS income statement. IFRS 3 and IAS 12 (Income Taxes) require a write-down of goodwill equal to the tax benefit of any tax attributes that are subsequently recognised if a deferred tax asset has not been established at the time of acquisition. The write-down of goodwill adjusts goodwill in the balance sheet to the amount it would have been had a deferred tax asset been established on all of the tax attributes utilised. Due to the better than expected performance of certain acquisitions in the year ended 31 December 2004 there was an additional goodwill adjustment of £13 million charged to operating profit relating to the utilisation of pre-acquisition tax attributes that previously could not be recognised due to insufficient evidence that they were recoverable. The Group expects the annual goodwill adjustment to be lower in the future.

IAS 21 requires goodwill and fair value adjustments on acquisitions to be recorded in the functional currency of the acquiree rather than the functional currency of the acquirer. As permitted by IFRS 1 we are applying IAS 21 retrospectively to goodwill and fair value adjustments arising in business combinations that occurred before the date of transition to IFRS. We have retranslated our goodwill and corporate brands on this basis which has resulted in a decrease in the carrying value of these assets at 31 December 2004 of £679 million, and an equivalent reduction in equity.

IFRS 1 has a further impact in that goodwill previously written off to reserves under UK GAAP is not recycled to the income statement in the event of the disposal of the business concerned.

IAS 38 intangible assets

The Group has also applied IAS 38 to acquisitions completed since the initial adoption date which has resulted in the recognition of intangible assets of £7 million at 31 December 2004 which would not qualify for recognition under UK GAAP. These largely comprise corporate brand names.

These intangibles are amortised over their useful economic lives, which vary depending on the individual characteristics of the intangibles concerned, but are no more than 10 years. The impact on the income statement for the year ended 31 December 2004 is not material.

Under UK GAAP, capitalised computer software is included within tangible fixed assets on the balance sheet. Under IFRS, only computer software that is integral to a related item of hardware should be included as property, plant and equipment. All other capitalised computer software should be shown as an intangible asset.

Accordingly, a reclassification of £24 million has been made in the 31 December 2004 balance sheet from property, plant and equipment to intangible assets.

IAS 28 investments in associates

IFRS requires equity accounting for associates' losses to cease at the point that the carrying value of the net assets of the relevant associate are nil. Further losses are only accrued if the investor has a legal or constructive obligation for the losses. The Group has therefore ceased to recognise equity losses where the net assets of the associate concerned are nil or negative, where appropriate. This did not result in any impact on the 2004 income statement.

IAS 10 events after the balance sheet date

IAS 10 does not permit dividends proposed after the balance sheet date to be recognised as a liability at that date because they do not represent a present obligation as defined by IAS 27 (Provisions, Contingent Liabilities and Contingent Assets).

The impact of this change is to exclude the final dividend of £62 million from the income statement for the year ended 31 December 2004, but include the prior year final dividend of £52 million as an expense in 2004. This results in a net increase in retained profit of £10 million. The respective restated balance sheets at 31 December 2004 and 1 January 2004 exclude these dividends.

IAS 19 employee benefits

The Group fully implemented the UK Accounting Standard FRS 17 (Retirement Benefits) in 2001. This standard is consistent with IAS 19 and the Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures adopted by the IASB in December 2004, which encourages early adoption prior to its expected effective date of 1 January 2006. On the basis that the Amendment will be endorsed by the European Commission in the future, the Group has not made any changes to its accounting policies in respect of accounting for pensions.

IAS 32 and IAS 39 financial instruments

The Group has taken advantage of the exemption available under IFRS 1 not to apply IAS 32 and IAS 39 in respect of the year ended 31 December 2004. UK GAAP has continued to be applied to financial instruments in this period.

The Group will therefore adopt IAS 32 and IAS 39 on 1 January 2005 and consequently restate the opening balance sheet at that date to an IFRS basis in compliance with these standards.

The most significant impact on the income statement of adopting IAS 32 and IAS 39 at 1 January 2005 will be as follows:

Convertible bonds

Under UK GAAP, convertible bonds are reported as a liability unless conversion actually occurs, and no gain or loss is recognised on conversion. Under IAS 32, classification of such compound instruments is undertaken based on the substance of the contractual arrangements and, consequently, the Group's compound instruments will be split into liability and equity elements, based on the fair value of the debt component at the date of issue.

The income statement charge for the finance cost will continue to be spread evenly over the term of the bonds so that at redemption the liability equals the redemption value. However, under IFRS the initial recognition of the liability is for a lower amount than under UK GAAP and consequently the finance cost over the period is higher.

At 1 January 2005, the Group had in issue two convertible bonds: £450 million bond maturing in April 2007 and $287.5 million bond maturing in January 2005. The impact on the 1 January 2005 transition balance sheet from these bonds will be:

- £98 million reclassification from debt to equity to separately account for the equity element of the convertible bonds (£69 million relating to the £450 million bond and £29 million relating to the $287.5 million bond).
- £66 million adjustment to debt and retained earnings to reflect the cumulative extra amount of financing costs that would have been expensed through the income statement as at 31 December 2004 (£37 million relating to the £450 million bond and £29 million relating to the $287.5 million bond).
- The impact on the income statement for the year ending 31 December 2005 is expected to be an increase in interest payable and similar charges of £14 million, in relation to convertible bonds in issue at 1 January 2005 (£13.7 million relating to the £450 million bond and £0.3 million relating to the $287.5 million bond).
- The expected total interest charges for these bonds under IFRS for the year ending 31 December 2005 will be £30 million on the £450 million convertible and £0.5 million on the $287.5 million convertible.

On 7 March 2005 WPP completed the acquisition of Grey Global Group Inc (Grey). Grey had in issue $150 million 5% Contingent Convertible Subordinated Debentures due in 2033. The principles described above will also apply to this bond.

Changes in accounting policies (continued)

IAS 32 and IAS 39 financial instruments (continued)

Hedging instruments

The Group has a number of hedging instruments which were accounted for as hedges under UK GAAP during 2004. On adoption of IAS 39, the Group will recognise these hedging instruments at fair value in the balance sheet at 1 January 2005. It is expected that subsequent movements in the fair value of these instruments will not have a significant impact on the income statement for the year ending 31 December 2005 as they also qualify for hedge accounting under IAS 39.

From time to time, the Group uses certain short-term derivative financial instruments to mitigate interest rate and foreign exchange rate risks. These may not be held in qualifying hedge relationships and so movements in fair value of the relevant instrument will be taken to the income statement. However, owing to their short-term nature, the Group does not expect this to have a significant impact on the income statement.

IAS 12 income taxes

IAS 12 requires deferred tax to be provided on all taxable temporary differences between the book value and the tax base of assets and liabilities of the Group rather than timing differences under UK GAAP. As a result, the Group's IFRS balance sheet at 31 December 2004 includes additional deferred tax assets of £11 million and deferred tax liabilities of £17 million in respect of the differences between the carrying value and tax written down value of goodwill in the Group's balance sheet. In accordance with IAS 12, a liability of £15 million has been netted off against a deferred tax asset as both items relate to the same consolidated tax group. There was an additional charge to the IFRS income statement of £2 million in the year ended 31 December 2004 in relation to movements in these balances. IAS 1 requires deferred tax to be classified as a 'non current' asset and accordingly £77 million of deferred tax assets reported under UK GAAP have been reclassified from 'current assets'.

IAS 12 requires a deferred tax liability to be booked in respect of the tax cost of remitting undistributed earnings of the Group's associated undertakings and joint ventures. At 1 January 2004 this deferred tax liability was £8 million. There was an additional charge to the IFRS income statement of £2 million in the year ended 31 December 2004 in relation to undistributed earnings arising in the year whilst foreign exchange movements led to an increase in the liability of £1 million. At 31 December 2004 the deferred tax liability was £10 million.

IAS 12 also requires deferred tax to be provided in respect of the Group's future deductions in respect of share-based payments. At 1 January 2004 an asset of £3 million was recognised in respect of anticipated future tax deductions of share-based payments.

The 2004 IFRS income statement expense for stock options was £29 million. Deferred tax of only £2 million is credited to the IFRS income statement in 2004; the majority of the expense cannot be tax effected due to either the expense not being deductible for tax purposes or the recognition of the asset being restricted by existing tax losses. At 31 December 2004 a deferred tax asset of £3 million was held in the balance sheet as although the asset was increased by £2 million relating to the 2004 charge there were other adjustments, primarily the exercise of options, that reduced the asset by £2 million.

In accordance with IAS 12, in the year ended 31 December 2004 an amount of £9 million which had previously been credited to tax expense in the UK GAAP profit and loss account was credited directly to equity as it related to the tax benefits of share-based payments that exceeded the cumulative income statement expense for those payments.

The total IFRS income statement tax charge for the year ended 31 December 2004 is £135 million. In accordance with IAS 28, income from associates and joint ventures is now shown net of tax. A reconciliation from UK GAAP to IFRS tax charge is shown below. Under IFRS there is a net reduction of £5 million in the tax charge for the year ended 31 December 2004 which is comprised as follows:

	£m
UK GAAP Profit and loss account tax charge	140
Reclass of tax charge relating to associates and joint ventures	(18)
Deferred tax charge on unremitted earnings of associates and joint ventures	2
Deferred tax credit in relation to stock option expense	(2)
Tax charge in relation to the tax effect of share-based payments now credited to equity	9
Deferred tax charge relating to goodwill	2
Other changes	2
IFRS Income statement tax charge	135

The effect of the adjustments required under IFRS is to increase the Group's tax rate on Headline PBT for the year ended 31 December 2004 to 27.6% as compared with 26.1% under UK GAAP. The primary reason for the increase in tax rate is the reduction in IFRS Headline PBT due to the additional income statement expense for stock options as the majority of this expense cannot be tax effected. The Group's estimate of tax rate on Headline PBT for 2005 and 2006 remains 28-30% (excluding the impact of Grey). The introduction of IFRS does not impact the amount of cash tax paid by the Group.

IAS 12 requires deferred tax liabilities of £300 million to be recognised at 31 December 2004 in respect of intangible assets such as corporate brands which were recognised at the time of various acquisitions including Ogilvy & Mather, J. Walter Thompson, Hill & Knowlton and Young & Rubicam. As the Group acquired the shares in the respective holding companies there is no tax basis in the brands themselves and therefore the resulting deferred tax liabilities are equal to the carrying value of the corporate brands tax effected at the appropriate tax rate. The Group considers the appropriate tax rate to be the Group's combined US federal and state tax rate. Normally recognition of these deferred tax liabilities would result in a corresponding increase of goodwill in respect of these acquisitions, however under the exemptions provided by IFRS 1 relating to business combinations, the Group has not adjusted goodwill in respect of acquisitions before 1 January 2004.

At 31 December 2004 the tax related adjustments under IFRS, excluding the adjustments for corporate brands, increase total assets by £3 million and total liabilities by £27 million. As a result, a net amount of £24 million was debited to IFRS Capital and Reserves as at 31 December 2004 in relation to these adjustments. As detailed above, additional deferred tax liabilities of £300 million were recognised at 31 December 2004 in relation to corporate brands; a corresponding amount was also debited to IFRS Capital and Reserves.

Earnings per share

Earnings per share have been calculated in accordance with IAS 33 (Earnings per share). As noted above, in accordance with IFRS 2, the Group has charged the fair value of stock options to the income statement for 2004. IFRS 2 does not permit any reduction in the number of shares used in the diluted earnings per share calculation in respect of the dilutive effect of stock options, in spite of the fact that a charge to the income statement has been made.

Results for the year ended 31 December 2004

Unaudited consolidated income statement for the year ended 31 December 2004

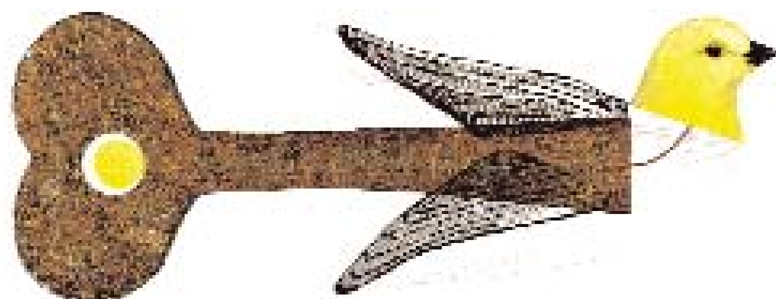
IFRS Reconciliation

	31 Dec 2004 Reported under UK GAAP £m	IFRS 3 Business Combinations £m	IFRS 2 Share Options £m	IAS 28 Associates £m	IAS 10 Dividends £m	IAS 12 Income Taxes	Other £m	Total IFRS adjustment £m	**31 Dec 2004 Restated under IFRS £m**
Revenue	**4,299.5**								**4,299.5**
Operating profit before goodwill amortisation	**559.6**		(28.9)					(28.9)	**530.7**
Goodwill amortisation and impairment – subsidiaries	**(75.0)**	34.4				(12.6)		21.8	**(53.2)**
Operating profit	**484.6**	34.4	(28.9)	–	–	(12.6)	–	(7.1)	**477.5**
Goodwill amortisation and impairment – associates	**(3.5)**	3.5						3.5	**–**
Income from associates and joint ventures	**48.1**							–	**48.1**
Tax, interest and minority interest on associates	**–**			(18.6)				(18.6)	**(18.6)**
Net income from associates and joint ventures	**48.1**			(18.6)				(18.6)	**29.5**
Profit on ordinary activities before interest, taxation and amounts written off fixed asset investments	**529.2**	37.9	(28.9)	(18.6)	–	(12.6)	–	(22.2)	**507.0**
Profits on disposal of fixed assets	**3.0**								**3.0**
Amounts written off fixed asset investments	**(5.0)**								**(5.0)**
Investment income	**–**						56.4	56.4	**56.4**
Finance costs (shown net under UK GAAP)	**(70.7)**			0.1			(56.4)	(56.3)	**(127.0)**
Profit on ordinary activities before taxation	**456.5**	37.9	(28.9)	(18.5)	–	(12.6)	–	(22.1)	**434.4**
Taxation on profit on ordinary activities	**(140.2)**		2.0	17.9		(14.7)		5.2	**(135.0)**
Profit on ordinary activities after taxation	**316.3**	37.9	(26.9)	(0.6)	–	(27.3)	–	(16.9)	**299.4**
Minority interests	**(24.0)**			0.6			(3.0)	(2.4)	**(26.4)**
Profit attributable to ordinary share owners	**292.3**	37.9	(26.9)	–	–	(27.3)	(3.0)	(19.3)	**273.0**
Ordinary dividends	**(92.0)**				10.3			10.3	**(81.7)**
Retained profit for the year	**200.3**	37.9	(26.9)	–	10.3	(27.3)	(3.0)	(9.0)	**191.3**
Headline PBIT[1]	**607.7**	–	(28.9)	(18.6)	–	–	–	(47.5)	**560.2**
Headline PBIT[1] margin	**14.1%**								**13.0%**
Headline PBT[1]	**537.0[2]**	–	(28.9)	(18.5)	–	–	–	(47.4)	**489.6**

Notes

[1] Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill impairment and fixed asset gains and write-downs.
Headline PBT: Profit on ordinary activities before taxation, goodwill impairment and fixed asset gains and write-downs.

[2] Restated to include interest on defined benefit pension schemes of £9.5 million as a deduction from Headline profits.
The Calculation of Headline PBIT and Headline PBT is set out on page 168.



Unaudited consolidated summary cash flow statement for the year ended 31 December 2004

IFRS reconciliation

	UK GAAP (IFRS format) £m	IFRS adjustments £m	IFRS £m
Net cash flows from operating activities	**489.0**	**–**	**489.0**
Investing activities			
Acquisitions and disposals	(218.2)		(218.2)
Purchases of property, plant and equipment	(95.6)		(95.6)
Proceeds on disposal of property, plant and equipment	9.3		9.3
Proceeds on disposal of current asset investments	9.3		9.3
Interest received	48.9		48.9
Dividends from associates	18.5		18.5
Net cash outflow from investing activities	**(227.8)**	**–**	**(227.8)**
Financing activities			
Issue of shares	17.9		17.9
Share repurchases and buybacks	(88.7)		(88.7)
Repayments of borrowings	128.6		128.6
Financing and share issue costs	(5.0)		(5.0)
Equity dividends paid	(81.7)		(81.7)
Dividends paid to minority shareholders in subsidiary undertakings	(22.5)		(22.5)
Net cash outflow from financing activities	**(51.4)**	**–**	**(51.4)**
Net increase in cash and cash equivalents	**209.8**	**–**	**209.8**
Translation differences	(44.6)		(44.6)
Cash and cash equivalents at beginning of year	1,117.8		1,117.8
Cash and cash equivalents at end of year	**1,283.0**	**–**	**1,283.0**
Reconciliation of net cash flow to movement in net debt:			
Net increase in cash and cash equivalents	**209.8**	**–**	**209.8**
Cash inflow from (increase)/decrease in debt financing	(124.2)		(124.2)
Debt acquired	(9.6)		(9.6)
Other movements	(8.2)		(8.2)
Translation difference	(6.7)	19.4	12.7
Movement in net debt in the year	**61.1**	**19.4**	**80.5**
Net debt at beginning of period	(361.5)	(280.4)	(641.9)
Net debt at end of period	**(300.4)**	**(261.0)**	**(561.4)**

Unaudited consolidated balance sheet as at 31 December 2004

IFRS reconciliation

	31 Dec 2004 Reported under UK GAAP £m	IFRS 3 Business Combinations £m	IAS 28 Associates £m	IAS 10 Dividends £m	IAS 12 Income Tax £m	IAS 38 Intangibles and software reclass £m	Other £m	Total IFRS adjustment £m	**31 Dec 2004 Restated under IFRS £m**
Non-current assets									
Intangible assets:									
Corporate brands	**950.0**	(207.4)						(207.4)	**742.6**
Goodwill	**4,845.7**	(436.4)			(12.6)	(7.0)		(456.0)	**4,389.7**
Other	**–**					31.0		31.0	**31.0**
Property plant and equipment	**333.8**					(24.0)		(24.0)	**309.8**
Deferred tax assets	**–**				91.8			91.8	**91.8**
Investments	**389.3**	3.2	1.1					4.3	**393.6**
	6,518.8	(640.6)	1.1	–	79.2	–	–	(560.3)	**5,958.5**
Current assets									
Inventories and work in progress	**220.6**								**220.6**
Debtors	**2,677.6**				(76.6)			(76.6)	**2,601.0**
Trade debtors within working capital facility:									
Gross debts	**545.7**								**545.7**
Non-returnable proceeds	**(261.0)**						261.0	261.0	**–**
	284.7						261.0	261.0	**545.7**
Current asset investments (short-term bank deposits)	**244.0**						(244.0)	(244.0)	**–**
Cash and cash equivalents	**1,372.0**						244.0	244.0	**1,616.0**
	4,798.9	–	–	–	(76.6)	–	261.0	184.4	**4,983.3**
Current liabilities									
Creditors: amounts falling due within one year (including convertible bonds)	**(5,220.0)**			62.6	–		(270.4)	(207.8)	**(5,427.8)**
Net current liabilities	**(421.1)**	–	–	62.6	(76.6)	–	(9.4)	(23.4)	**(444.5)**
Total assets less current liabilities	**6,097.7**	(640.6)	1.1	62.6	2.6	–	(9.4)	(583.7)	**5,514.0**
Non-current liabilities									
Creditors: amounts falling due after more than one year (including convertible bonds)	**(1,852.6)**						(2.6)	(2.6)	**(1,855.2)**
Deferred tax liabilities	**–**				(312.3)			(312.3)	**(312.3)**
Provisions for liabilities and charges	**(91.2)**	4.3						4.3	**(86.9)**
Post-employment benefits	**(187.8)**				(14.4)			(14.4)	**(202.2)**
Net assets	**3,966.1**	(636.3)	1.1	62.6	(324.1)	–	(12.0)	(908.7)	**3,057.4**
Capital and reserves									
Called up share capital	**118.5**								**118.5**
Share premium account	**1,002.2**								**1,002.2**
Shares to be issued	**49.9**								**49.9**
Merger reserve	**2,920.6**								**2,920.6**
Other reserves	**(125.5)**	(174.7)			28.6		181.0	34.9	**(90.6)**
Own shares	**(277.7)**								**(277.7)**
Retained earnings	**226.5**	(461.6)	1.1	62.6	(352.7)		(196.0)	(946.6)	**(720.1)**
Equity share owners' funds	**3,914.5**	(636.3)	1.1	62.6	(324.1)	–	(15.0)	(911.7)	**3,002.8**
Minority interests	**51.6**						3.0	3.0	**54.6**
Total capital employed	**3,966.1**	(636.3)	1.1	62.6	(324.1)	–	(12.0)	(908.7)	**3,057.4**

Reconciliation to non-GAAP measures of performance

Reconciliation of profit on ordinary activities before interest, taxation, fixed asset gains and write-downs to Headline PBIT for the year ended 31 December 2004

	UK GAAP £m	IFRS £m
Profit on ordinary activities before interest, taxation, fixed asset gains and write-downs	**529.2**	**507.0**
Goodwill amortisation	42.5	–
Goodwill impairment	36.0	40.6
Goodwill write-down of historical deferred tax losses	–	12.6
Headline PBIT	**607.7**	**560.2**

Reported margins

	UK GAAP £m	IFRS £m
Revenue	4,299.5	4,299.5
Headline PBIT	607.7	560.2
Headline PBIT margin	**14.1%**	**13.0%**

Reconciliation of profit on ordinary activities before taxation to Headline PBT and Headline earnings for the year ended 31 December 2004

	UK GAAP £m	IFRS £m
Profit on ordinary activities before taxation	456.5	434.4
Goodwill amortisation	42.5	–
Goodwill impairment	36.0	40.6
Goodwill write-down of historical deferred tax losses	–	12.6
Profits on disposal of fixed assets	(3.0)	(3.0)
Amounts written off fixed asset investments	5.0	5.0
Headline PBT	537.0[1]	489.6
Taxation on profit on ordinary activities	(140.2)	(135.0)
Minority interests	(24.0)	(26.4)
Headline earnings	372.8[1]	328.2

Calculation of effective tax rate on Headline profit before tax

	UK GAAP £m	IFRS £m
Taxation on profit on ordinary activities	(140.2)	(135.0)
Headline PBT	537.0[1]	489.6
Effective tax rate on Headline profit before tax	26.1%[1]	27.6%

Earnings per ordinary share

	UK GAAP £m	IFRS £m
Headline earnings	372.8[1]	328.2
Earnings adjustment:		
Dilutive effect of convertible bonds	12.2	12.2
Weighted average number of ordinary shares	1,219,588,084	1,219,588,084
Headline diluted earnings per ordinary share	31.6p[1]	27.9p

Note

[1] Restated to include interest on defined benefit pension schemes of £9.5 million as a deduction from Headline profits.

Independent auditors' report

Independent auditors' report to the members of WPP Group plc

We have audited the financial statements of WPP Group plc for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable UK law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant UK legal and regulatory requirements and auditing standards.

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

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

10 May 2005

Financial glossary

Term used in annual report	US equivalent or brief description
Allotted	Issued
ADRs/ADSs	American Depositary Receipts/American Depositary Shares. The Group uses ADR and ADS interchangeably
Average net debt	Average net debt is calculated as the average daily net bank borrowings of the Group, derived from the Group's automated banking system. Net debt at a period end is calculated as the sum of the net bank borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Combined Code	The 'Principles of Good Governance' and the provisions of the 'Code of Best Practice' issued by the Hampel Committee on Corporate Governance and the London Stock Exchange
Constant currency	The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying budgeted 2004 exchange rates to local currency reported results for the current and prior year. This gives a US dollar-denominated income statement and balance sheet which excludes any variances attributable to foreign exchange rate movements
Creditors	Accounts payable
Creditors: amounts falling due after more than one year	Long-term debt
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
ESOP	Employee share ownership plan
Estimated net new billings	Net new billings represent the estimated annualised impact on billings (turnover) of new business gained from both existing and new clients, net of existing client business lost. The estimated impact is based upon initial assessments of the clients' media budget, which may not necessarily result in actual billings of the same amount
EURIBOR	The euro area inter-bank offered rate for the euro
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
FRS	Financial reporting standard in the UK
Interest receivable	Interest income
Hampel Committee	UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees
Headline earnings	Headline PBT less taxation on profit on ordinary activities and minority interests
Headline operating profit	Operating profit before goodwill amortisation and impairment
Headline PBIT	Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment, fixed asset gains and write-downs
Headline 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
Higgs Report	Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors
IAS/IFRS	International Accounting Standard/International Financial Reporting Standard

Term used in annual report	US equivalent or brief description
LIBOR	The London inter-bank offered rate
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
Profit attributable to ordinary share owners	Net income
Profit	Income
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit and loss account (statement)	Income statement
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 'pro forma' and 'like-for-like' interchangeably
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Provision against deferred tax assets	Valuation allowance
Sarbanes-Oxley Act	An Act passed in the US to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Short leasehold	A short lease is where the portion of the term remaining unexpired at the end of the financial year is less than 50 years
Smith Report	Report in the UK by Sir Robert Smith on the role of audit committees
Stocks	Inventories
Tangible fixed assets	Property and equipment
Turnbull Report	Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange

About share ownership

Share owners' register

A register of share owners' interests is kept at the Company's head office and is available for inspection on request. The register includes information on nominee accounts and their beneficial owners.

Analysis of shareholdings at 31 December 2004

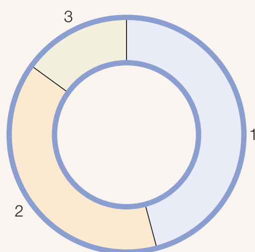
Issued share capital as at 31 December 2004: 1,185,338,038 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	2,635	18.84	91,608	0.01
101 – 250	1,557	11.13	287,229	0.02
251 – 500	2,114	15.11	812,413	0.07
501 – 1,000	2,653	18.96	2,089,341	0.18
1,001 – 5,000	3,077	22.00	6,767,519	0.57
5,001 – 10,000	421	3.01	3,028,542	0.26
10,001 – 25,000	433	3.10	7,040,365	0.59
25,001 – 50,000	267	1.91	9,615,265	0.81
50,001 – 100,000	215	1.54	15,417,250	1.30
100,001 – 500,000	356	2.54	82,986,762	7.00
500,001 – 1,000,000	98	0.70	69,788,392	5.89
1,000,001 – 2,000,000	63	0.45	92,873,220	7.83
2,000,001 – 3,000,000	30	0.21	73,239,376	6.18
3,000,001 – 4,000,000	15	0.11	52,517,384	4.43
4,000,001 and above	55	0.39	768,783,372	64.86
Totals	**13,989**	**100**	**1,185,338,038**	**100**

Share owners by geography	%	Share owners by type	%
UK	46	Institutional investors	92
US	39	Employees	7
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	15	Other individuals	1
Total	**100**	**Total**	**100**

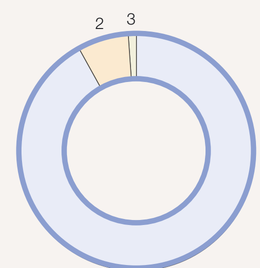
Share owners by geography

1	UK	46%
2	US	39%
3	Other – Asia Pacific, Latin America, Africa & Middle East and Continental Europe	15%



Share owners by type

1	Institutional investors	92%
2	Employees	7%
3	Other individuals	1%



Dividends

Ordinary share owners have received the following dividends in respect of each financial year:

	2004	2003	2002	2001	2000
Interim dividend per ordinary share	**2.50p**	2.08p	1.73p	1.44p	1.20p
Final (2004 proposed) dividend per ordinary share	**5.28p**	4.40p	3.67p	3.06p	2.55p
Total	**7.78p**	**6.48p**	**5.40p**	**4.50p**	**3.75p**

About share ownership

American Depositary Receipts (ADRs)

Each ADR represents five ordinary shares.

ADR holders receive the annual and interim reports issued by WPP Group plc.

WPP Group plc is subject to the informational requirements of the US securities laws applicable to foreign companies and files an annual report on Form 20-F and other information with the US Securities and Exchange Commission. Form 20-F is also available from our Investor Relations departments in London or New York.

ADR dividends

ADR holders are eligible for all stock dividends or other entitlements accruing on the underlying WPP Group plc shares and receive all cash dividends in US dollars. These are normally paid twice a year.

Dividend cheques are mailed directly to the ADR holder on the payment date if ADRs are registered with WPP's US depositary. Dividends on ADRs that are registered with brokers are sent to the brokers, who forward them to ADR holders. WPP's US depositary is Citibank N.A. (address on page 175).

Dividends per ADR, including UK tax refunds but before US tax credits, in respect of each financial year are set out below.

	2004	2003	2002	2001	2000
In £ sterling					
Interim	**12.50p**	10.40p	8.65p	7.20p	6.00p
Final (2004 proposed)	**26.40p**	22.00p	18.35p	15.30p	12.75p
Total	**38.90p**	32.40p	27.00p	22.50p	18.75p
In US dollars[1]					
Interim	**22.91¢**	17.01¢	13.00¢	10.40¢	9.10¢
Final (2004 proposed)	**48.38¢**	35.98¢	27.60¢	22.00¢	19.30¢
Total	**71.29¢**	52.99¢	40.60¢	32.40¢	28.40¢

Notes

[1] These figures have been translated for convenience purposes only, using the profit and loss exchange rate shown on page 134. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

Dollar amounts paid to ADR holders depend on the sterling/dollar exchange rate at the time of payment.

Due to the ratification of the new UK:US treaty, for dividends paid on or after 1 May 2003 no withholding tax will be imposed on dividends paid to ADR holders and there will no longer be any entitlement to offset any part of the UK taxation credit against any US taxation liability. The dividend received (without any gross up for withholding tax suffered or tax credits) will be subject to US taxation.

Following the Jobs and Growth Tax Relief Reconciliation Act of 2003, certain dividends subject to US taxation may be taxed at a reduced rate of 15% if various conditions are met; share owners are advised to consult their professional advisors accordingly.

Financial calendar

- The 2004 final dividend will be paid on 4 July 2005 to share owners on the register at 3 June 2005.
- Interim statements for the half-year ending 30 June are issued in August.
- Quarterly trading announcements are issued in April and October.
- Interim dividends are paid in November.
- Preliminary announcements of results for the financial year ending 31 December are issued in February.
- Annual reports are posted to share owners in May/June.
- Annual General Meetings are held in London in June.

Share price

The mid-market price of the shares at 31 December was as follows:

	2004	2003	2002
Ordinary 10p shares	**573.0p**	548.5p	474.5p

Within the UK, the latest ordinary share price information is available on Ceefax and Teletext and also the Cityline service operated by the Financial Times (telephone 0906 843 4544; calls charged at 60p per minute at all times).

Access numbers/Ticker symbols

	NASDAQ	Reuters	Bloomberg
Ordinary shares	–	WPP.L	WPP LN
American Depositary Shares	WPPGY	WPPGY.O	WPPGY US

www.wppinvestor.com

This public website, created specifically for WPP's share owners and the worldwide financial community, contains a comprehensive menu of current and historical financial information, news releases, trading reports and share price information.

Registrar and transfer office

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

General enquiry number: 0870 702 0000

American Depositary Receipts (ADRs)

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Providence
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Telephone enquiries: within the US 1 877 248 4237
Telephone enquiries: outside the US 1 816 843 4281
e-mail enquiries: citibank@shareholders-online.com

WPP registered office

Pennypot Industrial Estate
Hythe
Kent CT21 6PE

The Company's registered number is 1003653.

Tax information

Reclaiming income tax on dividends

For all dividends, the tax credit available to individual share owners resident in the UK is one-ninth of the dividend; tax credits are not repayable to UK holders with no tax liability. Individuals whose income is within the lower or basic tax rate bands are liable to tax at 10% on the dividend income and the tax credit will satisfy their income tax liability on UK dividends. The higher rate of tax on dividend income is 32.5% with relief available for the tax credit referred to above.

Capital gains tax

The market value of an ordinary share at 31 March 1982 was 39p. Since that date rights issues have occurred in September 1986, August 1987 and April 1993. For capital gains tax purposes the acquisition cost of ordinary shares is adjusted to take account of such rights issues. Since any adjustments will depend on individual circumstances, share owners are advised to consult their professional advisors. ■

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Recognition for previous WPP Annual Reports

2003 Platinum Award in the League of American Communications Professionals' Vision Awards Annual Report Competition.

2003 *Accountancy Age*, runner-up in Annual Report Category.

2002 Silver Award in the League of American Communications Professionals' Vision Awards Annual Report Competition.

2000 Annual Report received a ProShare Commendation for best Annual Report for private investors in a FTSE 100 Company.

1999 Annual Report selected by the D&AD 2001 Annual, a showcase of the world's best design work.

1999 ProShare Award for best Annual Report and Accounts for private investors in a FTSE 100 Company, for the second year in a row.

1999 British Design and Art Direction Awards: Silver Award to WPP director Jeremy Bullmore for his essay, Polishing the Apples.

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