

WPP Group (UK) Limited

Annual report and financial statements
for the year ended 31 December 2004

Registered number: 2670617



Directors' report

For the year ended 31 December 2004

The directors present their annual report together with the audited financial statements and auditors' report, for the year ended 31 December 2004.

Principal activities and review of the business

The company acts as an intermediate holding company. The directors do not expect any changes in the company's activities in the foreseeable future.

The subsidiary undertakings held by the company are listed in note 7 to the financial statements. Consolidated financial statements are not presented as the company takes advantage of the exemption afforded by Section 228 of the Companies Act 1985.

Details of significant events since the balance sheet date are contained in note 15 of the accounts.

Results and dividends

The audited financial statements for the year ended 31 December 2004 are set out on pages 6 to 16. The company made a profit on ordinary activities after taxation for the year of £96,835,000 (2003 – £372,431,000).

The company declared and paid ordinary dividends of £98,210,000 (2003 - £370,866,000) in the year. The retained loss for the year transferred from reserves was £1,375,000 (2003 – profit of £1,565,000 transferred to reserves).

Directors and their interests

The directors who served throughout the year were as follows:

Sir M.S. Sorrell
P.W.G. Richardson
L. Mellman
A. Scott
C. Sweetland

None of the directors had any interest in the shares of the company. The interests of Sir M.S. Sorrell and P.W.G. Richardson in the shares of the company's ultimate holding company, WPP Group plc, and details of share options granted are shown in that company's financial statements.

Directors' report (continued)
For the year ended 31 December 2004

Directors and their interests (continued)

L. Mellman, A. Scott and C. Sweetland held the following options over shares in WPP Group plc at 31 December 2004:

	At 1 Jan 2004 Number	Granted 2004 Number	Exercised 2004 Number	At 31 Dec 2004 Number	Commencement	Expiry	Exercise price per share
<u>A. Scott</u>	5,614	-	-	5,614	Sept. 2002	Sept. 2009	£5.700
(ADRs) 1,265 ¹		-	-	1,265	Sept. 2003	Sept. 2010	\$63.265
(ADRs) 4,240 ¹		-	-	4,240	Sept. 2004	Sept. 2011	\$35.380
	22,994	-	-	22,994	Sept. 2005	Sept. 2011	£4.21
	15,923	-	-	15,923	Nov. 2006	Nov. 2006	£5.595
	-	14,818	-	14,818	Oct. 2007	Oct. 2014	£5.535
<u>C. Sweetland</u>	23,750	-	-	23,750	June 1999	June 2006	£2.140
	6,861	-	-	6,861	Sept. 1999	Sept. 2006	£2.335
	5,422	-	-	5,422	Sept. 2000	Sept. 2007	£2.835
	5,012	-	-	5,012	Sept. 2001	Sept. 2008	£2.930
	2,689	-	-	2,689	Sept. 2002	Sept. 2009	£5.700
	12,070	-	-	12,070	Sept. 2003	Sept. 2010	£9.010
	23,143	-	-	23,143	Sept. 2004	Sept. 2011	£4.865
	25,293	-	-	25,293	Sept. 2005	Sept. 2012	£4.210
	17,515	-	-	17,515	Nov. 2006	Nov. 2006	£5.595
	-	16,300	-	16,300	Oct. 2007	Oct. 2014	£5.535
<u>L. Mellman</u>	3,731	-	-	3,731	Sept. 2000	Sept. 2007	£2.835
	7,235	-	-	7,235	Sept. 2001	Sept. 2008	£2.930
	4,772	-	-	4,772	Sept. 2002	Sept. 2009	£5.700
	3,552	-	-	3,552	Sept. 2003	Sept. 2010	£9.010
	14,026	-	-	14,026	Sept. 2004	Sept. 2011	£4.865
	22,994	-	-	22,994	Sept. 2005	Sept. 2012	£4.210
	15,923	-	-	15,923	Nov. 2006	Nov. 2006	£5.595
	-	14,818	-	14,818	Oct. 2007	Oct. 2014	£5.535

¹ Each ADR (American Depositary Receipt) represents 5 ordinary shares.

In addition, C. Sweetland had a beneficial interest in 50,761 (2003 – 47,592) shares in WPP Group plc and L. Mellman had a beneficial interest in nil (2003 – 1,380) shares in WPP Group plc at 31 December 2004.

The directors have no other interests in any other group company.

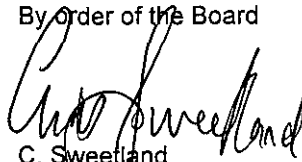
Directors' report (continued)
For the year ended 31 December 2004

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

27 Farm Street
London
W1J 5RJ

By order of the Board



C. Sweetland
Director

30 September 2005

Statement of Directors' responsibilities

United Kingdom company law 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 as at the end of the financial year and of the profit or loss of the company for that period. 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;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors report

Independent auditors' report to the members of WPP Group (UK) Limited:

We have audited the financial statements of WPP Group (UK) Limited for the year ended 31 December 2004 which comprise the profit and loss account, balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's 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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 are properly prepared in accordance with the Companies Act 1985. We also report 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 is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2004 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

14 October 2005

Profit and loss account

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Turnover		-	-
Other operating expenses		(23)	(1,593)
Other operating income		-	50
Operating loss		(23)	(1,543)
Income from shares in group undertakings		1,776,726	490
Profit on sale of tangible fixed assets		-	217
Profit on sale of fixed asset investments	7	92,855	397,226
Loss on sale of fixed asset investments	7	-	(466)
Interest receivable and similar income	3	3,199	135
Amounts written off investments	7	(1,772,432)	(11,902)
Interest payable and similar charges	4	(3,489)	(11,410)
Foreign exchange loss		(1)	(316)
Profit on ordinary activities before taxation	2	96,835	372,431
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation		96,835	372,431
Ordinary dividends paid and proposed	6	(98,210)	(370,866)
Retained (loss)/profit for the year transferred (from)/to reserves	12	(1,375)	1,565

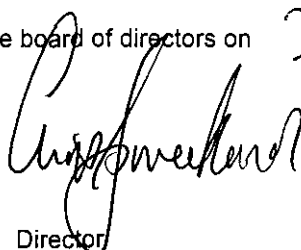
All results are derived from continuing activities.

There are no recognised gains or losses in either year other than the profit and loss shown above and accordingly no statement of total recognised gains and losses has been prepared.

Balance sheet
At 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investments	7	<u>4,212,329</u>	<u>3,658,851</u>
Current assets			
Debtors:			
- due within one year	8	758	925,633
- due after one year	8	1,049	2,005
Cash at bank and in hand		-	1,616
		<u>1,807</u>	<u>929,254</u>
Creditors: amounts falling due within one year	9	<u>(25,647)</u>	<u>(951,484)</u>
Net current liabilities		<u>(23,840)</u>	<u>(22,230)</u>
Total assets less current liabilities		<u>4,188,489</u>	<u>3,636,621</u>
Creditors: amounts falling due after more than one year	10	<u>(3,800)</u>	<u>(12,423)</u>
Net assets		<u>4,184,689</u>	<u>3,624,198</u>
Capital and reserves			
Called-up equity share capital	11	704,839	142,973
Share premium account	12	3,440,074	3,440,074
Capital reserve	12	44,840	44,840
Profit and loss account	12	(5,064)	(3,689)
Equity shareholders' funds	13	<u>4,184,689</u>	<u>3,624,198</u>

The financial statements were approved by the board of directors on 30 September 2005 and signed on its behalf by:



C. Sweetland

Director

Notes to financial statements

For the year ended 31 December 2004

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and law.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of WPP Group plc which prepares consolidated financial statements which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

b) Investments

Fixed asset investments are shown at cost less provision for impairment.

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.

c) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted.

d) Translation of foreign currency

Foreign currency transactions arising from operating activities are translated from local currency to sterling at the exchange rates prevailing 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.

Notes to financial statements (continued)

For the year ended 31 December 2004

2 Profit on ordinary activities before taxation

The directors received no remuneration during the year (2003 – £nil) for services to the company. The company had no other employees during the current or preceding year. Administrative expenses, including the auditors remuneration, are borne by the ultimate parent company, WPP Group plc.

3 Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest receivable	3,101	135
Other interest receivable	98	-
	<u>3,199</u>	<u>135</u>

4 Interest payable and similar charges

	2004 £'000	2003 £'000
Bank loans and other borrowings	392	236
Intercompany interest payable	2,798	10,637
Other financing charges	299	537
	<u>3,489</u>	<u>11,410</u>

Included within other financing charges is £299,000 (2003 - £537,000) of interest in relation to the discounting of deferred cash consideration in respect of future earnout payments.

Notes to financial statements (continued)

For the year ended 31 December 2004

5 Taxation

The corporation tax charge of £nil (2003 - £nil) comprises:

	2004 £'000	2003 £'000
Corporation tax at 30% (2003: 30%)	88	4,015
Adjustment in respect of group relief	(88)	(4,015)
	<u>-</u>	<u>-</u>

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	96,835	372,431
Tax at 30% thereon	(29,050)	(111,729)
<i>Factors affecting tax charge for the period:</i>		
Expenses not deductible for tax purposes	(7)	(3,571)
UK dividend income	533,018	147
Gain on transfer of investments within UK group	27,857	119,168
Amount written off investment	(531,730)	-
Adjustment in respect of group relief	(88)	(4,015)
Current tax charge for the year	<u>-</u>	<u>-</u>

No tax charge arises on the sale of investments to fellow group companies due to the availability of the substantial shareholdings exemption.

6 Dividends paid and proposed

	2004 £'000	2003 £'000
Final dividend proposed and paid £3.81 (2003 - £14.40) per preferred ordinary share	<u>98,210</u>	<u>370,866</u>

Notes to financial statements (continued)

For the year ended 31 December 2004

7 Fixed asset investments

	<u>Subsidiary</u> <u>undertakings</u> £'000	<u>Associated</u> <u>undertakings</u> £'000	<u>Other</u> £'000	<u>Total</u> £'000
Cost				
At 1 January 2004	3,711,433	4,856	69	3,716,358
Additions	2,989,072	37	1,605,256	4,594,365
Reclassification	462	(462)	-	-
Disposals	(663,299)	-	(1,605,156)	(2,268,455)
At 31 December 2004	<u>6,037,668</u>	<u>4,431</u>	<u>169</u>	<u>6,042,268</u>
Provision for impairment				
At 1 January 2004	57,507	-	-	57,507
Written off	1,772,432	-	-	1,772,432
At 31 December 2004	<u>1,829,939</u>	<u>-</u>	<u>-</u>	<u>1,829,939</u>
Net book value at 31 December 2004	<u>4,207,729</u>	<u>4,431</u>	<u>169</u>	<u>4,212,329</u>
Net book value at 31 December 2003	<u>3,653,926</u>	<u>4,856</u>	<u>69</u>	<u>3,658,851</u>

Notes to financial statements (continued)

For the year ended 31 December 2004

7 Fixed asset investments (continued)

Investments at 31 December 2004 represent interests in the ordinary share capital of the following companies:

<u>Company</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>Holding</u>
Banner McBride Limited	Great Britain	Corporate Identity	100%
Clockwork Capital Limited	Great Britain	Lease finance for audio visual products	50%
Cockpit Two Limited	Great Britain	Intermediate Holding Company	100%
Dialogue Marketing Partnership Limited	Great Britain	Marketing Consultants	100%
Digit London Limited	Great Britain	Communications	51%
Enduring Organisation	Great Britain	Intermediate Holding Company	62%
Enduring Organisation Two	Great Britain	Intermediate Holding Company	91%
EWA Limited	Great Britain	Database marketing	100%
Fitch: Qatar Limited	Great Britain	Provision of design services	1%
Flamingo Perspectives Limited	Great Britain	Intermediate Holding company	100%
Flexible Organisation	Great Britain	Intermediate Holding Company	100%
Goldfarb Focus Limited	Great Britain	Market Research	100%
Headlight Vision Limited	Great Britain	Advertising	100%
HHCL / Red Cell Advertising Limited	Great Britain	Advertising	49%
Hill & Knowlton CIS Limited	Great Britain	Public relations consulting services	70%
Icomms MediaGroup Limited	Great Britain	Communications	100%
Information Design Unit Limited	Great Britain	Specialist Communications	100%
International Presentations Limited	Great Britain	Investor Relations	100%
JWT Specialist Communications UK Limited	Great Britain	Employment / Marketing Communications	100%
Mathew Poppy Advertising Limited	Great Britain	Healthcare advertising	100%
Media Insight Limited	Great Britain	Dormant	100%
Millward Brown Precise Limited	Great Britain	Media evaluation	100%
Mindshare Media UK Limited	Great Britain	Media-buying	100%
Mindshare Media Worldwide Limited	Great Britain	Dormant	100%
Newcrosse Limited	Great Britain	Intermediate holding company	100%
P-Four Consultancy Limited	Great Britain	Management consulting	100%
Permanent Organisation	Great Britain	Intermediate Holding Company	100%
Permanent Organisation Two	Great Britain	Intermediate Holding Company	1%
POA (Holdings) Limited	Great Britain	Outdoor advertising	100%
Principals Group Limited	Great Britain	Corporate identity and design	100%

Notes to financial statements (continued)

For the year ended 31 December 2004

7 Fixed asset investments (continued)

<u>Company</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>Holding</u>
Prism Limited	Great Britain	PR & Sports Marketing	100%
Rodney Fitch International Design Consultants Limited	Great Britain	Design Consultants	100%
ROCQM Limited	Great Britain	Dormant	100%
Shine M Limited	Great Britain	Media Buying	50%
Syzygy AG	Germany	Interactive	40.5%
Tempest Online Marketing Limited	Great Britain	Media Planning	100%
The Brand Union Limited	Great Britain	Branding & Identity	100%
The Farm Post Production Limited	Great Britain	Post production	100%
The Marketing Consultancy	Great Britain	Sales promotion & marketing	100%
Warwicks UK Limited	Great Britain	Branding & Identity	100%
WPP 1177 Limited	Great Britain	Intermediate holding company	100%
WPP Consulting Limited	Great Britain	Intermediate Holding Company	100%
WPP (Isle of Man) 2 LLC	Great Britain	Intermediate Holding Company	100%
WPP Group (Nominees) Limited	Great Britain	Intermediate holding company	100%
WPP Group Nominees One Limited	Great Britain	Dormant	100%
WPP Group Nominees Two Limited	Great Britain	Dormant	100%
WPP Group Nominees Three Limited	Great Britain	Dormant	100%
WPP Group Nominees Four Limited	Great Britain	Dormant	100%
WPP Group Nominees Five Limited	Great Britain	Dormant	100%
WPP Group Nominees Six Limited	Great Britain	Dormant	100%
WPP India Limited	Great Britain	Intermediate holding company	100%
WPP Investments Limited	Great Britain	Intermediate holding company	100%
WPP Sparky Limited	Great Britain	Intermediate holding company	34%
WPP Spike Limited	Great Britain	Intermediate holding company	100%

During the year the company made additional investments in existing undertakings and new investments in Digit London Limited, Flexible Organisation, I comms MediaGroup Limited. In addition the company transferred part of its investment in WPP Sparky Limited to another group company for a profit of £92,210,000, its investment in NOHO Digital Limited at a profit of £645,000 and its investment in Ultimate Square by way of a share-for-share exchange. The company also acquired and disposed of an investment in WPP North Atlantic Limited.

In accordance with the company's accounting policy, the company annually tests the carrying value of investments for impairment. The 2004 impairment review was undertaken as at 31 December 2004. The review assessed whether the carrying value of investments was supported by the net present value of future cash flows derived from assets using the cash flow projections of up to five years for each subsidiary entity. Post the forecast period, growth rates of nominal GDP have been assumed for each subsidiary entity. The discount rate used was the Group's weighted average cost of capital, of 8.5%.

Notes to financial statements (continued)

For the year ended 31 December 2004

8 Debtors

	2004 £'000	2003 £'000
<i>Amounts falling due within one year:</i>		
Amounts owed by other group undertakings	646	925,538
Amounts owed by associated undertakings	112	95
	<u>758</u>	<u>925,633</u>
<i>Amounts falling due after more than one year:</i>		
Amounts owed by associate undertakings	1,049	2,005
	<u>1,049</u>	<u>2,005</u>
	<u>1,807</u>	<u>927,638</u>

9 Creditors: Amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdraft	14,242	-
Amounts owed to other group undertakings	9,813	948,993
Payments due to vendors	1,592	2,491
	<u>25,647</u>	<u>951,484</u>

10 Creditors: Amounts falling due after more than one year

	2004 £'000	2003 £'000
Payments due to vendors	3,800	12,423

Notes to financial statements (continued)

For the year ended 31 December 2004

11 Called-up equity share capital

	2004 £	2003 £
<i>Authorised</i>		
1,974,240,525 (2003 - 1,974,240,525) ordinary shares of £1 each	1,974,240,525	1,974,240,525
25,759,475 (2003 - 25,759,475) preferred ordinary shares of £1 each	25,759,475	25,759,475
	<u>2,000,000,000</u>	<u>2,000,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
679,079,608 (2003 - 117,213,265) ordinary shares of £1 each	679,079,608	117,213,265
25,759,475 (2003 - 25,759,475) preferred ordinary shares of £1 each	25,759,475	25,759,475
	<u>704,839,083</u>	<u>142,972,740</u>

During the year the company issued 561,866,343 ordinary shares of £1 each at par to purchase fixed asset investments.

The preferred ordinary shares do not carry voting rights, but rank pari passu with the ordinary shares with regard to rights on a return of capital on liquidation or otherwise, and any right to participate in the profits of the Company.

12 Reserves

	Share premium account £'000	Capital reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2004	3,440,074	44,840	(3,689)	3,481,225
Retained loss for the year	-	-	(1,375)	(875)
At 31 December 2004	<u>3,440,074</u>	<u>44,840</u>	<u>(5,064)</u>	<u>3,480,350</u>

13 Reconciliation of movements in equity shareholders' funds

	2004 £'000	2003 £'000
(Loss)/profit for the financial year	(1,375)	1,565
Issue of ordinary shares	561,866	7,396
Issue of preferred ordinary shares	-	745,187
Net addition to equity shareholders' funds	<u>560,491</u>	<u>754,148</u>
Opening equity shareholders' funds	3,624,198	2,870,050
Closing equity shareholders' funds	<u>4,184,689</u>	<u>3,624,198</u>

Notes to financial statements (continued)

For the year ended 31 December 2004

14 Guarantees and other financial commitments

The company participates in group banking arrangements with its parent, WPP Group plc, and has access to a group cash management facility. The company guarantees the facility to the extent of its cash deposited in the UK with its clearing bank.

15 Subsequent events

In May and July 2005 the company sold part of its holding in WPP Sparky Limited, realising a profit of £51,495,000.

16 Ultimate controlling party

The directors regard WPP LN Limited, a company incorporated in Great Britain, as the immediate parent company and WPP Group plc, a company incorporated in Great Britain, as the ultimate parent company and the ultimate controlling party.

The only group in which the results of WPP Group (UK) Limited are consolidated is that headed by WPP Group plc. Copies of the consolidated financial statements of WPP Group plc can be obtained from WPP Group plc, 27 Farm Street, London W1J 5RJ.

As a subsidiary of WPP Group plc, the company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by WPP Group plc.