

Appendix I

WPP GROUP PLC

Preliminary results for the year ended 31 December 2004

Unaudited preliminary consolidated profit & loss account for the year ended 31 December 2004

	Notes	2004 £m	2003 £m	+ / (-) %	Constant Currency ³ + / (-) %
Turnover (gross billings)		19,598.0	18,621.3	5.2	12.0
Cost of sales		(15,298.5)	(14,515.3)	(5.4)	(12.2)
Revenue	4	4,299.5	4,106.0	4.7	11.4
Direct costs		(225.1)	(237.1)	5.1	1.0
Gross profit		4,074.4	3,868.9	5.3	12.2
Operating costs excluding goodwill amortisation and impairment		(3,514.8)	(3,375.9)	(4.1)	(10.9)
Goodwill amortisation and impairment – subsidiaries	11	(75.0)	(77.7)	3.5	3.5
Operating costs		(3,589.8)	(3,453.6)	(3.9)	(10.6)
Operating profit		484.6	415.3	16.7	25.8
Income from associates		48.1	40.5	18.8	23.5
Goodwill amortisation and impairment - associates	11	(3.5)	(34.3)	89.8	89.8
Profit on ordinary activities before interest, taxation and fixed asset gains and write-downs		529.2	421.5	25.6	35.6
Profits on disposal of fixed assets	5	3.0	-	-	-
Amounts written off fixed asset investments	11	(5.0)	-	-	-
Net interest payable and similar charges on net borrowings		(61.2)	(60.1)	(1.8)	(6.9)
Net interest charges on defined benefit pension schemes		(9.5)	(11.5)	17.4	9.7
Net interest payable and similar charges		(70.7)	(71.6)	1.3	(4.3)
Profit on ordinary activities before taxation		456.5	349.9	30.5	41.6
Taxation on profit on ordinary activities	6	(140.2)	(122.1)	(14.8)	(18.6)
Profit on ordinary activities after taxation		316.3	227.8	38.8	54.8
Minority interests		(24.0)	(19.4)	(23.7)	(30.5)
Profit attributable to ordinary share owners		292.3	208.4	40.3	57.2
Ordinary dividends	7	(92.0)	(76.8)	19.8	19.8
Retained profit for the year		200.3	131.6	52.2	83.0
Headline PBIT ¹	4	607.7	533.5	13.9	21.1
Headline PBIT¹ margin		14.1%	13.0%		
Headline PBT ¹		546.5	473.4	15.4	22.9
Headline earnings per share²					
Basic earnings per ordinary share	8	33.6p	29.8p	12.8	21.8
Diluted earnings per ordinary share	8	32.3p	29.0p	11.4	20.2
Standard earnings per share					
Basic earnings per ordinary share	8	25.7p	18.7p	37.4	54.3
Diluted earnings per ordinary share	8	25.0p	18.2p	37.4	53.7

¹ Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment and 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 calculations of Headline PBIT and Headline PBT are presented in Appendix IV.

² 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 presented in Appendix IV.

³ Constant currency is defined in Appendix IV

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Unaudited preliminary consolidated cash flow statement
for the year ended 31 December 2004

	Notes	2004 £m	2003 Restated ¹ £m
Operating profit		484.6	415.3
Depreciation		103.4	127.5
Goodwill amortisation and impairment charges – subsidiaries		75.0	77.7
Movements in working capital and provisions		27.0	321.5
Net cash inflow from operating activities		690.0	942.0
Dividends received from associates		18.5	15.6
Returns on investments and servicing of finance		(73.3)	(38.3)
United Kingdom and overseas tax paid		(101.3)	(93.6)
Capital expenditure and financial investment	9	(86.3)	(85.2)
Acquisitions and disposals	9	(208.9)	(344.5)
Equity dividends paid		(81.7)	(67.0)
Net cash inflow before management of liquid resources and financing		157.0	329.0
Management of liquid resources		157.8	(211.4)
Net cash inflow from financing	9	52.8	116.8
Increase in cash and overdrafts for the year		367.6	234.4
Translation difference		(44.6)	(19.3)
Balance of cash and overdrafts at beginning of year		716.0	500.9
Balance of cash and overdrafts at end of year		1,039.0	716.0
Reconciliation of net cash flow to movement in net debt:			
Increase in cash and overdrafts for the year		367.6	234.4
Cash (inflow)/ outflow from increase in liquid resources		(157.8)	211.4
Cash inflow from increase in debt financing		(124.2)	(24.3)
Debt acquired		(9.6)	-
Other movements		(8.2)	(9.4)
Translation difference		(6.7)	(50.9)
Movement of net debt in the year		61.1	361.2
Net debt at beginning of year		(361.5)	(722.7)
Net debt at end of year	10	(300.4)	(361.5)

¹ Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Unaudited preliminary consolidated statement of total recognised gains and losses
for the year ended 31 December 2004

	2004 £m	2003 £m
Profit for the year	292.3	208.4
Exchange adjustments on foreign currency net investments	52.1	74.8
Actuarial (loss)/gain on defined benefit pension schemes in accordance with FRS17 (Retirement Benefits)	(18.2)	14.0
Deferred tax on defined benefit pension schemes	3.3	10.0
Total recognised gains and losses relating to the year	329.5	307.2

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Unaudited preliminary consolidated balance sheet as at 31 December 2004

	Notes	2004 £m	2003 Restated ¹ £m
Fixed assets			
Intangible assets:			
Corporate brands		950.0	950.0
Goodwill		4,845.7	4,710.3
Tangible assets		333.8	344.6
Investments		389.3	381.5
		6,518.8	6,386.4
Current assets			
Stocks and work in progress		220.6	269.6
Debtors	12	2,677.6	2,394.5
Trade debtors within working capital facility:			
Gross debts		545.7	507.5
Non-returnable proceeds		<u>(261.0)</u>	<u>(280.4)</u>
		284.7	227.1
Current asset investments (short-term bank and escrow deposits)		244.0	401.8
Cash at bank and in hand		1,372.0	1,018.1
		4,798.9	4,311.1
Creditors: amounts falling due within one year	13	(5,220.0)	(4,902.0)
Net current liabilities		(421.1)	(590.9)
Total assets less current liabilities		6,097.7	5,795.5
Creditors: amounts falling due after more than one year (including convertible bonds)	14	(1,852.6)	(1,691.1)
Provisions for liabilities and charges		(91.2)	(99.7)
Net assets excluding pension provision		4,153.9	4,004.7
Pension provision		(187.8)	(188.9)
Net assets including pension provision		3,966.1	3,815.8
Capital and reserves			
Called up share capital		118.5	118.7
Share premium account		1,002.2	955.3
Shares to be issued		49.9	130.0
Merger reserve		2,920.6	2,921.0
Other reserves		(125.5)	(178.9)
Own shares ²		(277.7)	(307.8)
Profit and loss account		226.5	129.4
Equity share owners' funds	16	3,914.5	3,767.7
Minority interests		51.6	48.1
Total capital employed		3,966.1	3,815.8

¹ Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

² Investments in own shares held by the ESOP Trusts.

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Notes to the unaudited preliminary consolidated financial statements (Notes 1-16)

1. Basis of accounting

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

2. Accounting policies

The unaudited preliminary consolidated financial statements comply with relevant accounting standards and have been prepared using the accounting policies set out on pages 112 to 114 of the Group's 2003 Annual Report and Accounts. No changes have been made to the accounting policies since this time 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 balance sheet and cash flow statement for the year ended 31 December 2003 and preceding periods. There was no material impact on the profit and loss account for the year ended 31 December 2003.

The policies set out in the 2003 Annual Report and Accounts are in accordance with applicable accounting standards in the United Kingdom (UK GAAP).

Statutory Information

The financial information for the years ended 31 December 2004 or 2003 does not constitute the company's statutory accounts. The financial information for the year ended 31 December 2003 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237 (2) or (3) Companies Act 1985. The statutory accounts for the year ended 31 December 2004 will be finalised on the basis of the financial information presented by the directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting. The audit report for the year ended 31 December 2004 has yet to be signed.

The preliminary announcement was approved by the board of directors on 24 February 2005.

3. Currency conversion

The 2004 unaudited preliminary consolidated profit and loss account is prepared using, among other currencies, an average exchange rate of US\$1.8326 to the pound (2003: US\$1.6356). The unaudited preliminary consolidated balance sheet as at 31 December 2004 has been prepared using the exchange rate on that day of US\$1.9158 to the pound (2003: US\$1.7833).

The unaudited preliminary consolidated profit and loss account and balance sheet are presented in euros in Appendix II for illustrative purposes. The unaudited preliminary consolidated profit and loss account has been prepared using the average exchange rate for the year ended 31 December 2004 of €1.4739 to the pound (year ended 31 December 2003: €1.4450). The unaudited preliminary consolidated balance sheet at 31 December 2004 has been prepared using the exchange rate on 31 December 2004 of €1.4133 to the pound (31 December 2003: €1.4198).

The basis for calculating the constant currency percentage changes, shown on the face of the unaudited preliminary consolidated profit and loss account, is presented in Appendix IV.

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Notes to the unaudited preliminary consolidated financial statements (continued)

4. Segmental analysis

Reported contributions by geographical area were as follows:

	2004	2003	+/(-)%
	£m	£m	
Revenue			
North America	1,651.9	1,678.7	(1.6)
United Kingdom	728.5	664.9	9.6
Continental Europe	1,134.8	1,079.4	5.1
Asia Pacific, Latin America, Africa & Middle East	784.3	683.0	14.8
	4,299.5	4,106.0	4.7
Headline PBIT¹			
North America	262.6	247.8	6.0
United Kingdom	81.9	71.8	14.1
Continental Europe	141.2	121.8	15.9
Asia Pacific, Latin America, Africa & Middle East	122.0	92.1	32.5
	607.7	533.5	13.9

Reported contributions by operating sector were as follows:

	2004	2003	+/(-)%
	£m	£m	
Revenue			
Advertising and Media investment management ²	1,985.3	1,911.2	3.9
Information, insight and consultancy	744.8	703.6	5.9
Public relations and public affairs ²	445.2	450.9	(1.3)
Branding and identity, Healthcare and Specialist communications	1,124.2	1,040.3	8.1
	4,299.5	4,106.0	4.7
Headline PBIT¹			
Advertising and Media investment management ²	319.0	291.7	9.4
Information, insight and consultancy	73.9	50.0	47.8
Public relations and public affairs ²	62.4	58.8	6.1
Branding and identity, Healthcare and Specialist communications	152.4	133.0	14.6
	607.7	533.5	13.9

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

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 and public affairs. As a result the comparative figures for both Advertising and Media investment management and Public relations and public affairs have been restated to reflect this change.

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Notes to the unaudited preliminary consolidated financial statements (continued)

5. Profits on disposal of fixed assets

The net profit on disposal of fixed assets comprised:

	2004	2003
	£m	£m
Net profit on disposal of investments	3.0	-
	3.0	-

In 2004, profits were realised on the disposal of certain minority investments in marketing services companies in North America.

Amounts written off fixed asset investments of £5.0 million in 2004 related to write-downs on a number of 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 in 2004.

The Group has released £14.0 million (2003: £12.0 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.

6. Taxation

The Group tax rate on headline PBT¹ is 25.7% (2003: 25.8%). The tax charge comprises:

	2004	2003
	£m	£m
Total current tax	132.0	116.2
Total deferred tax	(9.7)	(8.7)
Share of associates tax	17.9	14.6
Total tax on profits	140.2	122.1

¹ Headline PBT: Profit on ordinary activities before taxation, goodwill amortisation and impairment and fixed asset gains and write-downs and net interest charges on defined benefit pension schemes. The calculation of Headline PBT is presented in Appendix IV.

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Notes to the unaudited preliminary consolidated financial statements (continued)

7. Ordinary dividends

The Board has recommended a final dividend of 5.28p (2003: 4.40p) per ordinary share. In addition to the interim dividend paid of 2.50p (2003: 2.08p) per ordinary share, this makes a total for the year of 7.78p (2003: 6.48p) per ordinary share. The final dividend is expected to be paid on 4 July 2005 to share owners on the register at 3 June 2005.

	2004	2003
Ordinary dividend per share -		
interim	2.50p	2.08p
final	5.28p	4.40p
	7.78p	6.48p
Ordinary dividend per ADR¹ -		
interim	22.9¢	17.0¢
final	48.4¢	36.0¢
	71.3¢	53.0¢

¹ These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in note 3. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

8. Earnings per share

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

Headline basic earnings per share have been calculated using earnings of £292.3 million (2003: £208.4 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 million (2003: £123.5 million). The weighted average number of shares in issue used was 1,136,132,685 shares (2003: 1,115,319,576 shares).

Headline diluted earnings per share have been calculated using earnings of £304.5 million (2003: £208.4 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 million (2003: £123.5 million). The weighted average number of shares in issue used was 1,219,588,084 shares (2003: 1,145,014,508 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. For the year ended 31 December 2004, both the \$287.5 million convertible loan note and the £450 million convertible bond were dilutive and earnings were consequently adjusted by £12.2 million. For the year ended 31 December 2003, both the \$287.5 million convertible loan note and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation.

Standard basic earnings per share have been calculated using earnings of £292.3 million (2003: £208.4 million) and weighted average shares in issue during the period of 1,136,132,685 shares (2003: 1,115,319,576 shares).

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Notes to the unaudited preliminary consolidated financial statements (continued)

8. Earnings per share (continued)

Standard diluted earnings per share have been calculated using earnings of £304.5 million (2003: £208.4 million). The weighted average number of shares used was 1,219,588,084 shares (December 2003: 1,145,014,508 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. For the year ended 31 December 2004, both the \$287.5 million convertible loan note and the £450 million convertible bond were dilutive and earnings were consequently adjusted by £12.2 million. For the year ended 31 December 2003, both the \$287.5 million convertible loan note and the £450 million convertible bond were accretive to earnings and therefore excluded from the calculation.

At 31 December 2004 there were 1,185,338,038 ordinary shares in issue.

Basic and diluted earnings per ADR have been calculated below using the same method as earnings per share, multiplied by a factor of 5.

Earnings per ADR	2004	2003	+ / (-)%	Constant Currency³ + / (-)%
Headline earnings per ADR^{1,2}				
Basic earning per ADR	\$3.08	\$2.43	26.7	21.8
Diluted earnings per ADR	\$2.96	\$2.37	24.9	20.2
Standard earnings per ADR¹				
Basic earnings per ADR	\$2.35	\$1.53	53.6	54.3
Diluted earnings per ADR	\$2.29	\$1.49	53.7	53.7

¹ These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in note 3. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

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

³ Constant currency is defined in Appendix IV.

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Notes to the unaudited preliminary consolidated financial statements (continued)

9. Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 14:

	2004 £m	2003 Restated ¹ £m
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(95.6)	(93.9)
Proceeds from sale of tangible assets	9.3	8.7
	(86.3)	(85.2)
Acquisition 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)
Earnout payments	(78.6)	(56.2)
Loan note redemptions	(26.6)	(38.7)
Net cash acquired – other acquisitions	6.3	5.3
Purchases of other investments (including associates)	(22.0)	(100.7)
Proceeds from disposal of other investments (including associates)	9.3	11.0
	(208.9)	(344.5)
Net cash inflow from financing		
Proceeds from issue of \$650 million 10 year bond	358.2	-
Repayment of €350 million bond	(230.5)	-
Increase in drawings on bank loans	0.9	25.0
Financing and share issue costs	(5.0)	(3.4)
Share placement	-	100.2
Proceeds from other issue of shares	17.9	18.1
Share cancellations (including brokerage fees)	(73.7)	(20.2)
Purchase of own shares by ESOP Trusts	(15.0)	(2.9)
	52.8	116.8

¹ Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

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Notes to the unaudited preliminary consolidated financial statements (continued)

10. Net debt

	2004	2003
	£m	£m
Cash at bank and in hand	1,372.0	1,018.1
Current asset investments	244.0	401.8
Bank loans and overdrafts due within one year (note 13)	(597.8)	(552.4)
Corporate bond and loans due after one year (note 14)	(1,318.6)	(1,229.0)
Net debt	(300.4)	(361.5)

During the year, the Group completed the issue of \$650 million of 5.875% coupon bonds due June 2014. Proceeds from the issue were used to assist in the repayment of the €350 million bond in June 2004 and the Young & Rubicam convertible bond in January 2005.

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

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

11. Goodwill and acquisitions

During the year, the Group charged £42.5 million (2003: £33.0 million) of goodwill amortisation and £36.0 million (2003: £79.0 million) of goodwill impairment to the profit and loss account, a total of £78.5 million (2003: £112.0 million).

The impairment charge relates to a number of under-performing businesses in the Public relations and public affairs, Information, insight and consultancy, and Branding and identity, Healthcare and Specialist communications sectors. The impact of the current economic climate on these businesses is sufficiently severe to indicate an impairment to the carrying value of goodwill.

The directors continue to assess the useful life of goodwill arising on acquisitions. Goodwill of £649.8 million is subject to amortisation over periods of between 10 and 20 years.

Goodwill in relation to subsidiary undertakings increased by £135.4 million in the year. Other than amortisation and impairment this includes both goodwill arising on acquisitions completed in the year and also adjustments to goodwill relating to acquisitions completed in prior years. Goodwill in relation to associate undertakings increased by £15.7 million in the year.

Acquisitions of subsidiary and associated undertakings 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.

Future anticipated payments to vendors in respect of both deferred and earnout obligations totalled £298.6 million (year ended 31 December 2003: £215.7 million). 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.

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Notes to the unaudited preliminary consolidated financial statements (continued)

12. Debtors

The following are included in debtors:

	2004	2003
	£m	£m
Trade debtors outside working capital facility	2,058.5	1,883.4
Prepayments and accrued income	188.4	159.5
Deferred tax	76.6	70.0
Other debtors	354.1	281.6
	2,677.6	2,394.5

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

13. Creditors: amounts falling due within one year

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

	2004	2003 Restated ¹
	£m	£m
Bank loans and overdrafts	597.8	552.4
Trade creditors	2,885.3	2,733.3
Corporate income tax payable	53.1	29.5
Dividend proposed	62.6	52.2
Deferred income	405.8	391.9
Payments due to vendors	146.6	81.6
Loan notes due to vendors	7.2	13.9
Other creditors and accruals	1,061.6	1,047.2
	5,220.0	4,902.0

¹Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Overdraft balances included within bank loans and overdrafts amount to £333.0 million (31 December 2003: £302.1 million).

14. Creditors: amounts falling due after more than one year

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

	2004	2003
	£m	£m
Corporate and convertible bonds and bank loans	1,318.6	1,229.0
Corporate income tax payable	290.6	268.7
Payments due to vendors	152.0	134.1
Other creditors and accruals	91.4	59.3
	1,852.6	1,691.1

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Notes to the unaudited preliminary consolidated financial statements (continued)

14. Creditors: amounts falling due after more than one year (continued)

The following table sets out payments due to vendors, comprising deferred consideration and the directors' best estimates of future earnout payments:

	2004	2003
	£m	£m
Within one year	146.6	81.6
Between 1 and 2 years	65.0	60.9
Between 2 and 3 years	61.0	32.4
Between 3 and 4 years	3.4	37.0
Between 4 and 5 years	21.4	3.8
Over 5 years	1.2	-
	298.6	215.7

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

	2004	2003
	£m	£m
Within one year	597.8	552.4
Between 1 and 2 years	2.5	273.1
Between 2 and 3 years	453.3	-
Between 3 and 4 years	510.9	443.4
Between 4 and 5 years	-	512.5
Over 5 years	351.9	-
	1,916.4	1,781.4

15. 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 additional equity interests. These agreements typically contain options requiring WPP to purchase their shares at specified times up to 2009 on the basis of average earnings both before and after the exercise of the option.

All arrangements contain clauses that cap the maximum amount payable by WPP. The table below shows the illustrative amounts that would be payable by WPP in respect of these options, on the basis of the relevant companies' current financial performance, if all the options had been exercised at 31 December 2004.

	Currently Exercisable	Not Currently Exercisable	Total
	£m	£m	£m
Subsidiaries	10.1	32.5	42.6
Associates	2.7	6.6	9.3
Total	12.8	39.1	51.9

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Notes to the unaudited preliminary consolidated financial statements (continued)

16. Reconciliation of movements in consolidated share owners' funds

	2004	2003
	£m	Restated ¹ £m
Profit for the year	292.3	208.4
Ordinary dividends payable	(92.0)	(76.8)
	200.3	131.6
Exchange adjustments on foreign currency net investments	52.1	74.8
Ordinary shares issued in respect of acquisitions	-	16.9
Share placement	-	100.2
Share issue costs and brokerage fees charged to share premium account or reserves	(0.8)	(2.8)
Other share issues	32.8	18.1
Share cancellations	(73.6)	(20.2)
Adjustment to pre-1998 goodwill written off to reserves	3.2	1.3
Actuarial (loss)/gain on defined benefit schemes	(18.2)	14.0
Deferred tax on defined benefit pension schemes	3.3	10.0
Net disposals of own shares by ESOP Trusts	15.0	4.4
Transfer of shares to be issued and merger reserves to goodwill	(67.3)	-
Net additions to equity share owners' funds	146.8	348.3
Opening equity share owners' funds	3,767.7	3,419.4
Closing equity share owners' funds	3,914.5	3,767.7

¹ Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

Appendix II

WPP GROUP PLC

Unaudited preliminary consolidated profit & loss account for the year ended 31 December 2004
Presented in Euros for illustrative purposes only³

	2004	2003
	€m	€m
Turnover (gross billings)	28,885.5	26,907.8
Costs of sales	(22,548.5)	(20,974.6)
Revenue	6,337.0	5,933.2
Direct Costs	(331.8)	(342.6)
Gross Profit	6,005.2	5,590.6
Operating costs excluding goodwill amortisation and impairment	(5,180.5)	(4,878.2)
Goodwill amortisation and impairment – subsidiaries	(110.5)	(112.3)
Operating costs	(5,291.0)	(4,990.5)
Operating profit	714.2	600.1
Income from associates	70.9	58.5
Goodwill amortisation and impairment - associates	(5.1)	(49.5)
Profit on ordinary activities before interest, taxation and fixed asset gains and write-downs	780.0	609.1
Profits on disposal of fixed assets	4.4	-
Amounts written off fixed asset investments	(7.4)	-
Net interest payable and similar charges on net borrowings	(90.2)	(86.9)
Net interest charges on defined benefit pension schemes	(14.0)	(16.6)
Net interest payable and similar charges	(104.2)	(103.5)
Profit on ordinary activities before taxation	672.8	505.6
Taxation on profit on ordinary activities	(206.6)	(176.4)
Profit on ordinary activities after taxation	466.2	329.2
Minority interests	(35.4)	(28.0)
Profit attributable to ordinary share owners	430.8	301.2
Ordinary dividends	(135.6)	(111.0)
Retained profit for the year	295.2	190.2
Headline PBIT ¹	895.6	770.9
Headline PBIT¹ margin	14.1%	13.0%
Headline PBT ¹	805.4	684.1
Headline earnings per share²		
Basic earnings per ordinary share	49.5¢	43.1¢
Diluted earnings per ordinary share	47.6¢	41.9¢
Standard earnings per share		
Basic earnings per ordinary share	37.9¢	27.0¢
Diluted earnings per ordinary share	36.8¢	26.3¢

¹ Headline PBIT: Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment and 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 calculations of Headline PBIT and Headline PBT are presented in Appendix IV.

² Headline earnings per ordinary share exclude goodwill amortisation and impairment, fixed asset gains and write-downs and net interest charges on defined benefit pension schemes.

³ These figures have been translated for convenience purposes only, using the profit and loss exchange rate shown in Note 3 of Appendix I.

WPP GROUP PLC

Unaudited preliminary consolidated balance sheet as at 31 December 2004
Presented in Euros for illustrative purposes only¹

	2004	2003
	€m	Restated ² €m
Fixed assets		
Intangible assets:		
Corporate brands	1,342.6	1,348.8
Goodwill	6,848.4	6,687.7
Tangible assets	471.8	489.3
Investments	550.2	541.6
	<hr/> 9,213.0	<hr/> 9,067.4
Current assets		
Stocks and work in progress	311.8	382.8
Debtors	3,784.3	3,399.7
Trade debtors within working capital facility:		
Gross debts	771.2	720.5
Non-returnable proceeds	<u>(368.9)</u>	<u>(398.1)</u>
	402.3	322.4
Current asset investments (short-term bank and escrow deposits)	344.8	570.5
Cash at bank and in hand	1,939.1	1,445.5
	<hr/> 6,782.3	<hr/> 6,120.9
Creditors: amounts falling due within one year	(7,377.4)	(6,959.9)
Net current liabilities	(595.1)	(839.0)
Total assets less current liabilities	8,617.9	8,228.4
Creditors: amounts falling due after more than one year (including convertible bonds)	(2,618.3)	(2,401.0)
Provisions for liabilities and charges	(129.0)	(141.6)
Net assets excluding pension provision	5,870.6	5,685.8
Pension provision	(265.4)	(268.2)
Net assets including pension provision	5,605.2	5,417.6
<hr/> Capital and reserves		
Called up share capital	167.5	168.5
Share premium account	1,416.4	1,356.3
Shares to be issued	70.5	184.6
Merger reserve	4,127.7	4,147.2
Other reserves	(177.4)	(254.0)
Own shares ³	(392.5)	(437.0)
Profit and loss account	320.1	183.7
Equity share owners' funds	5,532.3	5,349.3
Minority interests	72.9	68.3
Total capital employed	5,605.2	5,417.6

¹ These figures have been translated for convenience purposes only, using the balance sheet exchange rate shown in Note 3 of Appendix I.

² Restated on implementation of UITF 38 (Accounting for ESOP Trusts).

³ Investments in own shares held by the ESOP Trusts.

Appendix III

WPP GROUP PLC

To present the impact of FRS 20 (IFRS 2) Share-based Payment, for illustrative purposes only
Unaudited preliminary pro forma consolidated profit and loss account for the year ended 31 December 2004

	2004	2003
	£m	£m
Turnover (gross billings)	19,598.0	18,621.3
Cost of sales	(15,298.5)	(14,515.3)
Revenue	4,299.5	4,106.0
Direct costs	(225.1)	(237.1)
Gross Profit	4,074.4	3,868.9
Operating costs excluding goodwill amortisation and impairment	(3,514.8)	(3,375.9)
Impact of FRS 20 Share-based Payment	(28.9)	(29.3)
Goodwill amortisation and impairment - subsidiaries	(75.0)	(77.7)
Operating costs	(3,618.7)	(3,482.9)
Operating profit	455.7	386.0
Income from associates	48.1	40.5
Goodwill amortisation and impairment - associates	(3.5)	(34.3)
Profit on ordinary activities before interest, taxation and fixed asset gains and write-downs	500.3	392.2
Profits on disposal of fixed assets	3.0	-
Amounts written off fixed asset investments	(5.0)	-
Net interest payable and similar charges on net borrowings	(61.2)	(60.1)
Net interest charges on defined benefit pension schemes	(9.5)	(11.5)
Net interest payable and similar charges	(70.7)	(71.6)
Profit on ordinary activities before taxation	427.6	320.6
Taxation on profit on ordinary activities	(138.2)	(120.5)
Profit on ordinary activities after taxation	289.4	200.1
Minority interests	(24.0)	(19.4)
Profit attributable to ordinary share owners	265.4	180.7
Ordinary dividends	(92.0)	(76.8)
Retained profit for the year	173.4	103.9
Headline PBIT ¹	578.8	504.2
Headline PBIT¹ margin	13.5%	12.3%
Headline PBT ¹	517.6	444.1
Headline earnings per share²		
Basic earnings per ordinary share	31.3p	27.3p
Diluted earnings per ordinary share	30.1p	26.6p
Standard earnings per share		
Basic earnings per ordinary share	23.4p	16.2p
Diluted earnings per ordinary share	22.8p	15.8p
Headline earnings per ADR^{2,3}		
Basic earnings per ADR	\$2.87	\$2.23
Diluted earnings per ADR	\$2.76	\$2.18
Standard earnings per ADR³		
Basic earnings per ADR	\$2.14	\$1.32
Diluted earnings per ADR	\$2.09	\$1.29

¹ 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.

² 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.

³ These figures have been translated for convenience purposes only, using the profit and loss exchange rates shown in Note 3 of Appendix I.

Appendix III (continued)**WPP GROUP PLC****FRS 20 (IFRS 2) Share-based Payment – illustrative charge**

WPP will be required to charge the fair value of stock-based compensation (including share options) to its income statement from 2005. Appendix III includes an unaudited pro forma consolidated profit and loss account to illustrate the impact of this change, which arises from the implementation of FRS 20 (IFRS 2) Share-based Payment.

The resulting charge has been derived from a Black Scholes valuation model and applying it to relevant share incentive schemes on a fully retrospective basis, so the 2004 charge arises from grants in 2004 and prior years, fully expensed over the appropriate vesting period. The impact of these changes on Headline PBIT margin for 2004 would be to reduce it by 0.6 margin points (2003: 0.7 margin points).

Appendix IV

WPP GROUP PLC

Reconciliation of profit on ordinary activities before interest, taxation and fixed asset gains and write-downs to PBIT for the year ended 31 December 2004

	2004	2003
	£m	£m
Profit on ordinary activities before interest, taxation and fixed asset gains and write-downs	529.2	421.5
Goodwill amortisation and impairment	78.5	112.0
Headline PBIT	607.7	533.5
Net interest payable and similar charges	70.7	71.6
Interest cover on Headline PBIT	8.6 times	7.5 times

	2004	2003
	£m	£m
Interest cover (excluding FRS 17 interest) on Headline PBIT		
Headline PBIT	607.7	533.5
Net interest payable and similar charges on net borrowings	61.2	60.1
Interest cover (excluding FRS 17 interest) on Headline PBIT	9.9 times	8.9 times

Reconciliation of profit on ordinary activities before taxation to PBT and headline earnings for the year ended 31 December 2004

	2004	2003
	£m	£m
Profit on ordinary activities before taxation	456.5	349.9
Goodwill amortisation and impairment	78.5	112.0
Profits on disposal of fixed assets	(3.0)	-
Amounts written off fixed asset investments	5.0	-
Net interest charges on defined benefit pension schemes	9.5	11.5
Headline PBT	546.5	473.4
Taxation on profit on ordinary activities	(140.2)	(122.1)
Minority interests	(24.0)	(19.4)
Headline earnings	382.3	331.9
Ordinary dividends	92.0	76.8
Dividend cover on headline earnings	4.2 times	4.3 times

WPP GROUP PLC

Segmental margin analysis

Reported margins by geographical area were as follows:

	Revenue	Headline PBIT ¹	Margin (%)
	£m	£m	
North America	1,651.9	262.6	15.9
United Kingdom	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

Reported margins by operating sector were as follows:

	Revenue	Headline PBIT ¹	Margin (%)
	£m	£m	
Advertising and Media investment management	1,985.3	319.0	16.1
Information, insight and consultancy	744.8	73.9	9.9
Public relations and public affairs	445.2	62.4	14.0
Branding and identity, Healthcare and Specialist communications	1,124.2	152.4	13.6
	4,299.5	607.7	14.1

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

	Margin (%)	2004	Margin (%)	2003
		£m		£m
Revenue		4,299.5		4,106.0
Headline PBIT	14.1	607.7	13.0	533.5
Income from associates		48.1		40.5
Headline PBIT excluding income from associates	13.0	559.6	12.0	493.0

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

WPP GROUP PLC

Reconciliation of free cash flow for the year ended 31 December 2004

	2004	2003
	£m	£m
Net cash inflow from operating activities	690.0	942.0
Plus:		
Dividends received from associates	18.5	15.6
Proceeds from the issue of shares ¹	17.9	18.1
Proceeds from sale of tangible fixed assets	9.3	8.7
Proceeds from disposal of investments ²	9.3	11.0
Less:		
Movements in working capital and provisions	(27.0)	(321.5)
Purchase of tangible fixed assets	(95.6)	(93.9)
UK and overseas tax paid	(101.3)	(93.6)
Returns on investments and servicing of finance	(73.3)	(38.3)
Free Cash Flow	447.8	448.1

¹ Excludes £100.2 million of proceeds from share placement in June 2003.

² Excludes proceeds from disposal of interest in Zenith Optimedia Group in August 2003.

WPP GROUP PLC

GLOSSARY AND BASIS OF PREPARATION

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 year 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.

Constant currency

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

Headline PBIT

Profit on ordinary activities before interest, taxation, goodwill amortisation and impairment and 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.

Headline earnings

Headline PBT less taxation on profit on ordinary activities and minority interests.

Operating margin

Headline PBIT as a percentage of revenue.

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.

Pro forma ('like for like')

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