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# Trading Statement for the First Quarter 2005

April 2005

# First Quarter 2005
## Summary

- Reported revenue growth up over 16%. On a constant currency basis, revenues up over 16%, primarily reflecting strong organic growth and the first time inclusion of Grey Global Group (“Grey”). The impact of currency in the quarter was minimal.
- Like-for-like growth up almost 6%.
- Double digit growth, in constant currency, across all sectors and geographies.
- Grey, together with a small number of strategic acquisitions completed during the quarter.

# First Quarter 2005
## Revenue by Discipline

| | Revenue 2005 £m | Revenue 2004 £m | % Change | % Change, constant currency |
|---|---|---|---|---|
| Advertising, Media Investment Management | 515.9 | 439.5 | 17.4 | 17.3 |
| Information, Insight and Consultancy | 188.7 | 158.3 | 19.2 | 19.0 |
| Public Relations & Public Affairs | 117.1 | 105.3 | 11.2 | 12.4 |
| Branding & Identity, Healthcare and Specialist Communications | 292.8 | 257.2 | 13.8 | 14.8 |
| **Total** | **1,114.5** | **960.3** | **16.1** | **16.4** |

# First Quarter 2005
## Advertising, Media Investment Management

- Constant currency revenue growth over 17%, largely as a result of the acquisition of Grey. Like-for-like growth almost 5%, which is the strongest growth rate for over three years.
- This sector performed well, strong organic growth in Media Investment Management, with organic growth in Advertising ahead of the comparable period in 2004.
- UK, Continental Europe, Asia Pacific and Latin America showed above average growth.
- Grey, together with acquisitions in the UK and Argentina, with an increased stake in Denmark completed during the quarter.

# First Quarter 2005
## Information, Insight and Consultancy

- Constant currency revenue growth up 19%, largely driven by acquisition of AGB in 2004. Like-for-like growth up almost 8%.
- Strong organic growth from Millward Brown, Kantar Media Research, IMRB, Center Partners, Lightspeed and Cannondale.
- Above average growth in North America, UK and Latin America.
- Oracle Market Research (Hong Kong) acquisition completed.



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# First Quarter 2005
## Public Relations & Public Affairs

- Constant currency revenue growth over 12%, partly as a result of the acquisition of Grey. Like-for-like growth over 7%, which is the strongest quarterly growth rate for  over three years.
- Strong performances at Cohn & Wolfe in the USA, Penn Schoen Berland in the USA, Ogilvy PR in the USA and Asia Pacific and Finsbury in the UK.
- Acquisition completed in Denmark for H&K.



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# First Quarter 2005
## Branding & Identity, Healthcare and Specialist Communications

- Constant currency revenue growth up almost 15%, largely driven by the acquisition of Grey. Like-for-like growth up over 5%.
- Strong organic growth in direct, internet and interactive at OgilvyOne and Wunderman, in healthcare at Sudler & Hennessey and in branding and identity at Landor.
- Geographically, strong growth in the USA and Latin America.
- Acquisitions completed in the quarter, CMD in USA for Sudler & Hennessey, NZP in the Netherlands and Dr Schlegel in Switzerland for Ogilvy Healthworld, Forelligent in the USA for Wunderman and K&L in the UK for 141.

# First Quarter 2005
## Revenue by Region

| | Revenue 2005 £m | Revenue 2004 £m | % Change | % Change, constant currency |
|---|---|---|---|---|
| North America | 443.9 | 390.3 | 13.7 | 16.6 |
| UK | 184.4 | 164.7 | 12.0 | 12.0 |
| Continental Europe | 291.5 | 246.0 | 18.5 | 15.5 |
| Asia Pacific, Latin America, Africa & Middle East | 194.7 | 159.3 | 22.2 | 22.0 |
| **Total** | **1,114.5** | **960.3** | **16.1** | **16.4** |



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# First Quarter 2005
## Growth by region

- Double digit growth, in constant currency, across all geographies.
- Strong organic growth in the USA, Asia Pacific and Latin America.

# First Quarter 2005
## Revenue Growth by Country

| Revenue Growth* | Countries |
|---|---|
| 15%+ | Australia, Brazil, Canada, China, Denmark, Germany, India, Italy, Mexico, Taiwan, USA |
| 10-15% | Hong Kong, Netherlands, Singapore, UK |
| 5-10% | France, Japan, Spain |
| 0-5% | Sweden |
| <0% | Belgium |

*Constant currency basis



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# First Quarter 2005
## Revenue Growth by Category

| Revenue Growth* | Categories |
|---|---|
| 15%+ | Computer, Drinks, Electrical, Financial Services, Personal Care & Drugs |
| 10-15% | - |
| 5-10% | Automotive, Food, Telecommunications |
| <5% | Oil |

*Constant currency basis



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# First Quarter 2005
## Impact of currency

- Minimal impact of currency in the quarter

- The average US dollar exchange rate for the first quarter of 2005 was $1.891 /£1 compared to $1.839 for the same period last year – a fall of 2.8%. The average euro exchange rate for the first quarter was €1.4421/£1 compared to €1.471 for the first quarter of 2004 – a 1.9% rise.

# First Quarter 2005
## Major New Business Wins/Losses

| | Agency | Account | Office | Billings ($m) |
|---|---|---|---|---|
| WINS | MediaCom | VW | USA | 500 |
| | mec | Cingular | USA | 200 |
| | mec | Novartis | Global | 200 |
| | JWT | Texas Instruments | USA | 79 |
| | MindShare | Danone | Italy | 75 |
| | Brand Buzz | LG | USA | 70 |
| | Joshua | Swatch | Global | 45 |
| | Ogilvy Healthworld/OgilvyOne | Wyeth | USA | 36 |
| | MindShare | Kellogg | Canada | 26 |
| | MediaCom | Muller | UK | 26 |
| | Ogilvy | SAB Miller | Global | 20 |
| | MindShare | THQ | USA | 20 |
| LOSSES | MediaCom | Novartis | Global | 100 |
| | Y&R | Jaguar | Global | 100 |
| | mec | Cencosud | Chile | 40 |
| | MindShare | Western Union | USA | 30 |
| | JWT | Chipita | Europe | 20 |

*(All billings figures are based on trade press estimates, where available)*



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# First Quarter 2005
## Uses of Cashflow

- Average net debt in the first quarter down £240 million to £586 million, compared to £826 million in 2004, at 2005 exchange rates.
- Net debt at 31 March 2005 was £938 million, an increase of £113 million at constant exchange rates, reflecting a £384 million gross payment for Grey.
- Free cash flow in the last 12 months was £572 million. In the same period expenditure on capital, acquisitions and share repurchases and cancellations was £646 million (including a £384 million gross payment for Grey).
- 3.367m shares purchased in the first quarter at a total cost of £20.8m, of which 2.25m were cancelled.



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# First Quarter 2005
## Acquisitions

### Advertising and Media Investment Management

Grey Worldwide (Global)
MediaCom (Global)
Santo Argentina (Argentina)
Tarantula (UK)
WT Denmark[1]

### Public Relations & Public Affairs

GCI
ABC (Denmark)

### Information, insight & consultancy

Oracle Market Research (Hong Kong)

[1] Increased stake

# First Quarter 2005
## Acquisitions

**Branding & Identity, Healthcare and Specialist Communications**

Grey Synchronised Partners
CMD (USA)
NZP (Netherlands)
Dr Schlegel (Switzerland)
K&L (USA)
Tarantula (UK)
Fortelligent (USA)



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# IFRS
# Restatement of 2004 Results

This information is unaudited, and was prepared using management's best knowledge and judgement of the Standards currently in issue.

# IFRS Overview

- WPP's first IFRS results will be its interim results for the six months ending 30 June 2005.

- WPP's first Annual Report under IFRS will be for the year ending 31 December 2005.

- Changes in accounting policy relating to:
  - Share-based payments
  - Equity income reclassification
  - Goodwill and intangibles
  - Taxation
  - Balance sheet
  - Dividends
  - Financial instruments (with effect from 1 January 2005)

# Summary Reported Income Statement

| | 2004 UK GAAP | Change | 2004 IFRS | % Change |
|---|---|---|---|---|
| Revenue | £4,300m | | £4,300m | - |
| Operating Profit | £485m | -£7m | £478m | -1.4% |
| PBIT | £529m | -£22m | £507m | -4.2% |
| PBIT margin | 12.3% | | 11.8% | -0.5mp* |
| PBT | £457m | -£23m | £434m | -5.0% |
| Earnings | £292m | -£19m | £273m | -6.5% |
| Diluted EPS | 25.0p | | 23.4p | -6.4% |

*Margin points.



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# Reported Profits Analysis

| £m | Oper. Profit | PBIT | PBT | Tax | Minorities | Earnings |
|---|---|---|---|---|---|---|
| **Reported (UK GAAP)** | **485** | **529** | **457** | **(140)** | **(24)** | **292** |
| Share based compensation | (29) | (29) | (29) | 2 | - | (27) |
| Income from associates & joint ventures | - | (19) | (19) | 18 | 1 | - |
| Goodwill related | 22 | 25 | 25 | - | - | 25 |
| Income taxes | - | - | - | (15) | - | (15) |
| Minority Interest | - | - | - | - | (3) | (3) |
| Rounding | - | 1 | - | - | - | 1 |
| | (7) | (22) | (23) | 5 | (2) | (19) |
| **Reported (IFRS)** | **478** | **507** | **434** | **(135)** | **(26)** | **273** |

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# Summary Headline Income Statement

| | 2004 UK GAAP | Change | 2004 IFRS | % Change |
|---|---|---|---|---|
| Revenue | £4,300m | | £4,300m | - |
| Headline Operating Profit | £560m | -£29m | £531m | -5.2% |
| Headline PBIT | £608m | -£48m | £560m | -7.9% |
| Headline PBIT margin | 14.1% | | 13.0% | -1.1mp* |
| Headline PBT | £537m ** | -£47m | £490m | -8.8% |
| Headline earnings | £373m ** | -£45m | £328m | -12.1% |
| Headline diluted EPS | 31.6p ** | | 27.9p | -11.7% |

* Margin points

*restated to include interest on defined benefit pension schemes of £10m as a deduction from headline profits



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# Headline Profit Analysis

| £m | Oper. Profit | PBIT | PBT | Tax | Minorities | Earnings |
|---|---|---|---|---|---|---|
| **Reported (UK GAAP)** | **560** | **608** | **537*** | **(140)** | **(24)** | **373*** |
| Share based compensation | (29) | (29) | (29) | 2 | - | (27) |
| Income from associates & joint ventures | - | (19) | (19) | 18 | 1 | - |
| Income taxes | - | - | - | (15) | - | (15) |
| Minority Interest | - | - | - | - | (3) | (3) |
| Rounding | - | - | 1 | - | - | - |
| | (29) | (48) | (47) | 5 | (2) | (45) |
| **Reported (IFRS)** | **531** | **560** | **490** | **(135)** | **(26)** | **328** |

* restated to include interest on defined benefit pension schemes of £10m as a deduction from headline profits



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# Share-based Compensation

- IFRS 2 requires that share-based payments (including share options) are expensed in the income statement at fair value.
- WPP has used the Black Scholes valuation model as a basis for fair values. The assumptions used for valuing share options were:

| | |
|---|---|
| - Expected life | 4 years |
| - Expected volatility | 45% |
| - Dividend yield | 1% |

- Full retrospective basis for all share awards, which better reflects the ongoing impact.
- The tax relief in relation to this item is restricted by existing tax losses and relief only being available in certain jurisdictions.

| 2004 Results: | £m |
|---|---|
| Additional pre-tax expense | (29) |
| Tax recoverable | 2 |
| **Earnings Impact** | **(27)** |



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# Income from Associates and Joint Ventures

- IAS 1 requires equity income to be shown net of interest, tax and related minority interest in the income statement.
- Equity income of £48m shown in PBIT would be reduced by interest, taxes and minority interest of £19m, and a net figure of £29m shown in PBIT.
- There is no impact on earnings as a result of this reclassification.

| 2004 Results: | £m |
|---|---|
| Additional operating expense | (19) |
| Reduced tax charge | 18 |
| Minorities | 1 |
| **Earnings Impact** | **-** |

# Goodwill

## Amortisation and retranslation

- Goodwill and Corporate Brands total £5.8 billion in the balance sheet, of which £5.15 billion was not being amortised, and is currently subject to impairment testing.

- Goodwill of £650m relates to the acquisition of first generation businesses, and was being amortised over periods of between 10 and 20 years, with an annual charge of £43m.

- IFRS 3 does not permit amortisation of goodwill and requires annual impairment testing instead. Amortisation of £43m charged to 2004 profits has been reversed. An impairment charge of £5m has been taken as it relates to first generation businesses whose goodwill would otherwise have been written off in full.

- There is a reduction of £680m in goodwill and corporate brands, the majority of which arises as a result of translating historic goodwill (previously fixed in sterling), on the opening balance sheet at 31 December 2003 exchange rates.

# Goodwill

## Deferred tax assets

- At the acquisition date we are required to estimate the expected utilisation of attributable tax losses (and recognise deferred tax assets), based on future profit projections. IAS12 requires us to look back at all prior acquisitions, and review the actual use of tax losses versus original expectations.
- As a result of cumulative operating profits exceeding our original forecasts, the utilisation of tax losses has been greater than we projected. We are required to write down the original goodwill by the amount of the additional tax asset utilised. As at December 2004, the cumulative impact was £13m and is shown as a revision to goodwill in the current year.
- Depending on future profit performance, there may be further goodwill adjustments relating to the restatement of deferred tax assets, but we would expect the future adjustments relating to this item not to exceed £7m in any year and £12m in total over the next 4 years.



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# Goodwill

- A summary of the impact relating to goodwill is as follows:

| 2004 Results: | £m |
|---|---|
| Amortisation reversal | 43* |
| Impairment | (5) |
| Reduction in goodwill relating to higher utilisation of tax losses | (13) |
| | (18) |
| **Earnings Impact** | **25*** |

*Goodwill amortisation on associates was £3m. The impact of the above on Operating Profit is a credit of £22m.



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# Taxation

- IAS stipulates a different policy with regard to deferred tax assets/(liabilities) and the utilisation of historic tax losses.
- No change to the cash tax paid.
- A higher reported tax rate of 27.6% compared to 26.1%* under UK GAAP, the principal reason for this being that the majority of the stock option expense cannot be tax effected.
- Tax charge of £140m under UK GAAP, revised to £135m under IFRS.

* restated to include interest on defined benefit pension schemes of £10m as a deduction from headline profits



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# Taxation

| | | £m |
|---|---|---|
| **UK GAAP tax charge** | | **140** |
| Tax charge relating to associates and joint ventures recorded in operating expenses | | (18) |
| Deferred tax credit in relation to stock option expense | | (2) |
| Deferred tax charge on unremitted earnings of associates & JVs | 2 | |
| Tax relief on share based compensation, in excess of the amount permitted, credited to reserves | 9 | |
| Deferred tax charge relating to asset based acquisitions | 2 | |
| Other | 2 | |
| | | 15 |
| **IFRS tax charge** | | **135** |

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# Taxation

- The balance sheet impact of the tax related adjustments (excluding brands) is to increase assets by £3m, and liabilities by £27m; with the consequent £24m charge to IFRS capital and reserves.

- A deferred tax liability is required to be established for intangible assets which includes corporate brand names. The amount of this liability is £300m, and would only materialise should the Group sell these names separately.



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# Balance sheet items

- Working capital facility: linked presentation is not permitted.
- Net debt is restated to include this facility which increased reported net debt at 31 December 2004 by £261m to £561m.
- Capitalised computer software of £24m reclassified from property, plant and equipment into intangible assets.
- Brands – deferred tax liabilities of £300m recognised at 31 December 2004 based on the difference between book and tax carrying values.
- The retranslation of goodwill and corporate brands resulting in a $680m reduction in carrying value.
- The result of all adjustments to the balance sheet is a reduction in Net Assets from £4.0bn to £3.1bn.

# Dividends

- IFRS does not permit dividends proposed after the balance sheet date to be recognised as a liability at that date.
- The resulting impact is to exclude the final dividend of £63m from the 2004 Income Statement but include the prior year final dividend of £52m.
- No impact on the Group's ability to pay dividends (adjustments to the consolidated retained earnings do not reduce distributable reserves).
- No changes to dividend policy.

# Financial Instruments

- The Group will adopt IAS 32 and IAS 39 from 1 January 2005.
- Most significant impact from 1 January 2005 will be the reclassification of the convertible bond into a debt and equity component.
- The £450m 2% coupon (3% yield to maturity) convertible bond issued in 2002 maturing in 2007, is broken down into a straight bond issue of £380m with a coupon of circa 6.6%, and an equity component of £70m.
- 2005 convertible finance charge will increase by £14m (excluding the impact of Grey convertible bond).

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# Trading Statement for the First Quarter 2005

April 2005