WPP Finance (UK)

Report and financial statements

31 December 2006

Registered number: 5135565

WPP Finance (UK)

Report and financial statements 2006

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Officers and professional advisers

Directors
P. Delaney (appointed 28 November 2006)
P.W.G. Richardson
A. Scott (resigned 28 November 2006)
C. Sweetland

Secretary
WPP Group (Nominees) Limited

Registered office
27 Farm Street
London
W1J 5RJ

Auditors
Deloitte and Touche LLP
Chartered Accountants
London

Directors' report

For the year ended 31 December 2006

The directors present their annual report on the affairs of the Company, together with the audited financial statements and auditors' report for the year ended 31 December 2006.

Principal activities and business review

The Company was incorporated on 24 May 2004 as WPP Finance (UK), an unlimited company, and subsequently issued $650m of bonds, which are listed on the Luxembourg Stock Exchange, using the proceeds to enact a group reconstruction, acquiring three fellow subsidiary undertakings of WPP Group plc, namely; Wunderman Worldwide LLC, Landor LLC and Commonhealth LLC. The principal activity of Wunderman Worldwide LLC is direct, digital, promotional and relationship marketing, the principal activity of Landor LLC is branding and identity and the principal activity of Commonhealth LLC is healthcare communications. The acquisitions were accounted for as a group reconstruction, as set out in note 1a to the financial statements. On 18 December 2006, the Company sold its investments in Wunderman Worldwide LLC, Landor LLC, and Commonhealth LLC. Following the disposal, the principal activity of the Company is to hold the $650m bond. The functional currency of the Company is US dollars. The directors do not expect any changes in the Company's activity in the foreseeable future.

With reference to the consolidated income statement on page 9, the Group reconstruction as outlined above has resulted in all trading activities being discontinued. The remaining operating costs relate solely to those incurred by the Company as a result of holding the $650m bond. The results of the discontinued operations have been shown as a single line on the income statement in accordance with IFRS 5.

The financial position of the Group in the consolidated balance sheet further reflects the disposal of the subsidiaries during the year leaving the assets and liabilities of the Company only. This has resulted in a move from a net liability position of $503m at 31 December 2006 to a net asset position of $508,000 at the year end.

Prior to disposal in December 2006, the revenue generated by the three subsidiaries rose by 2% during the year, mirrored by a 2% rise in headcount.

WPP Finance (UK) is a wholly owned subsidiary of WPP Group plc. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of WPP Group plc, which includes the Company, is discussed in the Group's Annual Report which does not form part of this Report.

Results and dividends

The audited financial statements are set out on pages 9 to 34. For the year ended 31 December 2006, the consolidated profit on ordinary activities after taxation was $257,348,000 (2005 - $5,827,000). For the year ended 31 December 2006, the parent Company loss on ordinary activities after taxation was $52,344,000 (2005 - $46,864,000).

No ordinary dividends were declared or paid during the year (2005 - $nil).

During the year, the company issued one £1 ordinary share at a premium of $243,966,998 to another group company for cash consideration.

Financial instruments and risk management

The Company seeks to align business objectives with risk management processes such that the business can ensure that there is an ongoing process for managing and reporting on risks. There are no major risks identified other than those of a normal commercial environment. Actions are put in place to manage risks down to low levels of significance.

Interest Rate Risk

The Company is exposed to interest rate risk on its $650m bond. The Company has a policy of actively managing its interest rate exposure by using interest rate swaps as hedging instruments in fair value hedges to mitigate its exposure to interest rate movements on its borrowings.

Currency Risk

The Company's management policy regarding foreign currency exposure requires it to hedge transactional currency exposures against the currency in which they are measured. Exposures are hedged at transactional level using the forward exchange rate market. No transactions are taken on a speculative basis.

Credit Risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because counterparties are banks with high credit-ratings assigned by international agencies.

Liquidity Cash Flow

The Company actively maintains facilities that are designed to ensure the Company has sufficient available funds to meet current and forecast financial requirements as cost-effectively as possible.

Directors

The directors who served throughout the year, except as noted, were as follows:

P. Delaney	(appointed 28 November 2006)
P.W.G. Richardson	
A. Scott	(resigned 28 November 2006)
C. Sweetland	

Supplier payment policy

The Company has no trade creditors because it is a parent company and does not generate trading revenues. Accordingly, no disclosure can be made of year-end trade 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 60 (2005 - 65).

Charitable and political donations

During the year the group made charitable donations of $nil (2005 - $nil). Political donations during the year were nil (2005 - $nil).

Statement of disclosure of information to auditors

So far as the directors currently in office are aware, there is no relevant audit information of which the company's auditors are unaware; and the directors have taken all the steps that ought to have been taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

27 Farm Street
London
W1J 5RJ

By order of the Board

C. Sweetland

Director

30 June 2008

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements.The directors have chosen to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRSs) and for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 , for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WPP FINANCE (UK)

We have audited the group and parent company financial statements (the "financial statements") of WPP Finance (UK) for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Cash Flow Statement, the Consolidated and Company Balance Sheets, and the related notes 1 to 31. 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 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

The directors' responsibilities for preparing the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider whether it is consistent with the audited financial statements. We 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

Basis of audit opinion (continued)

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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the group and parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

30 June 2008

Consolidated income statement

For the year ended 31 December 2006

	Notes	2006 $'000	2005 $'000
Continuing operations			
Turnover (billings)		-	-
Cost of sales		-	-
Revenue		-	-
Operating costs		(9,893)	(7,619)
Operating loss	3	(9,893)	(7,619)
Finance income	5	2,955	3,893
Finance costs	6	(43,642)	(41,167)
Loss on ordinary activities before taxation		(50,580)	(44,893)
Taxation	7	-	-
Loss for the year from continuing operations		(50,580)	(44,893)
Discontinued operations			
Profit for the year from discontinued operations	8	307,928	50,720
Profit for the year attributable to shareholders of the parent	21	257,348	5,827

Consolidated cash flow statement

For the year ended 31 December 2006

	Notes	2006 $'000	2005 $'000
Net cash (outflow)/inflow from operating activities	9	(82,053)	5,435
Investing activities			
Disposal of subsidiaries	20	519,352	-
Purchases of property, plant and equipment	12	(18,290)	(7,011)
Purchases of other intangible assets (including capitalised computer software)	11	(6,639)	(2,117)
Proceeds on disposal of property, plant and equipment		-	3,063
Net cash inflow/(outflow) from investing activities		494,423	(6,065)
Financing activities			
Proceeds on issue of share	27	243,967	-
Net cash inflow from financing activities		243,967	-
Net increase/(decrease) in cash and cash equivalents		656,337	(630)
Cash and cash equivalents at beginning of year		(4,542)	(3,912)
Cash and cash equivalents at end of year		651,795	(4,542)

The accompanying notes form an integral part of this cash flow statement.

Consolidated balance sheet
At 31 December 2006

	Notes	2006 $'000	2005 $'000
Non-current assets			
Goodwill	10	-	3,103
Other intangible assets	11	-	4,691
Property, plant and equipment	12	-	10,351
		-	18,145
Current assets			
Inventories	13	-	41,146
Trade and other receivables	14	2,141	411,992
Cash		651,795	-
		653,936	453,138
Current liabilities			
Trade and other payables	15	(1,697)	(321,318)
Net current assets		652,239	131,820
Total assets less current liabilities		652,239	149,965
Non-current liabilities			
Bonds and bank loans	16	(651,731)	(653,393)
Net assets/(liabilities)		508	(503,428)
Equity			
Called-up equity share capital	27	-	-
Share premium	28	243,967	-
Merger reserve	21	-	(613,663)
Retained earnings	21	(243,459)	110,235
Equity shareholders' funds/(deficit)	21	508	(503,428)

The financial statements were approved by the Board of directors on 30 June 2008 and signed on its behalf by:

C. Sweetland Director

1 Accounting policies

A summary of the principal accounting policies of the Group, all of which have been applied consistently throughout the current and prior year is set out below. A summary of the principal accounting policies of the Company is set out in note 22.

a) Basis of accounting and presentation of financial statements

The consolidated financial statements of WPP Finance (UK) (the Group) for the year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards, incorporating International Accounting Standards (IFRS) as issued by the International Accounting Standards Board. The consolidated financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments.

A summary of the Group's principal accounting policies, which have been applied consistently throughout the year is set out below.

WPP Finance (UK) was incorporated on 24 May 2004 and subsequently issued $650m of bonds, which are listed on the Luxembourg Stock Exchange, using the proceeds to enact a group reconstruction, acquiring three fellow subsidiary undertakings of WPP Group plc, the ultimate parent undertaking. The group reconstruction consisted of a business combination involving entities under common control, and therefore fell outside of the scope of IFRS 3 "Business Combinations" and was not restated on transition to IFRS. In the absence of a standard or interpretation that specifically applies to business combinations of entities under common control, the Directors used their judgement to determine a suitable accounting policy as required under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The group reconstruction was accounted for using merger accounting principles. For the consolidated accounts the adoption of merger accounting presents WPP Finance (UK) as if it had always been the parent undertaking of the group. No adjustments were made to the book values of assets and liabilities acquired following the group reconstruction.

In the current year, all the subsidiary undertakings of the Company have been sold to another WPP Group company. As a result, the merger reserve arising on acquisition of the subsidiaries in 2004 has been eliminated in the year as shown in note 21.

1 Accounting policies (continued)

b) Discontinued operations

The post tax profit for the year of discontinued operations is presented on a single line in the consolidated income statement in line with IFRS 5. Detailed results from discontinued operations are presented in the notes to the consolidated financial statements.

Where this presentation is adopted in the current year financial statements, the prior year comparatives have been re-presented to reflect the current year disclosure format.

c) Goodwill and other intangible assets

Intangible assets comprise goodwill and capitalised computer software not integral to a related item of hardware.

Goodwill represents the excess of 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. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill impairment reviews are undertaken 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 cash-generating unit. After the projection period a steady or declining growth rate representing an appropriate long-term growth rate for the industry is applied. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Amortisation on other intangible assets 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:

- Capitalised computer software - 3 - 5 years

d) Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated depreciation and any provision for impairment with the exception of freehold land which is not depreciated. The Group assesses the carrying value of its property, plant and equipment to determine if any impairment has occurred. Where this indicates that an asset may be impaired, the Group applies the requirements of IAS 36 in assessing the carrying amount of the assets. This process includes comparing its recoverable amount with its carrying value. 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 - 50 years
- Leasehold land and buildings - over the term of the lease or life of the asset, if shorter
- Fixtures, fittings and equipment - 3 - 10 years
- Computer equipment - 3 years

1 Accounting policies (continued)

e) Inventories

Work in progress is valued at cost or on a percentage of completion basis where appropriate. 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. Inventories are stated at the lower of cost and net realisable value.

f) Trade receivables

Trade receivables are stated net of provisions for bad and doubtful debts.

g) Financial instruments

Interest rate hedging

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Changes in the value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

h) Derecognition of financial liabilities

In accordance with IAS 39, a financial liability of the Group is only released to the income statement when the underlying legal obligation is extinguished.

1 Accounting policies (continued)

i) Bank borrowings

Other interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

j) Borrowing costs

Finance costs of borrowing are recognised in the income statement over the term of those borrowings.

k) Turnover 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. 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.

Branding and 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 income statement revenue and related costs as contract activity progresses.

l) Taxation

Corporate taxes are payable on taxable profits at current rates.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences unless specifically excepted by IAS 12. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1 Accounting policies (continued)

l) Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

m) Retirement benefit costs

Certain Group entities participate in a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme. For defined contribution schemes, contributions are charged to the income statement as payable in respect of the accounting period.

n) Finance leases

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement 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 income statement as it is incurred.

o) Operating leases

Operating lease rentals are charged to the income statement 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.

p) 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 income statement as they arise.

q) Share-based payments

The Group issues equity-settled share-based payments (including share options) to certain employees and accounts for these awards in accordance with IFRS 2 (Share-based payments). Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The Group has used a Black-Scholes valuation model for this purpose.

The fair value determined at the grant date is recognised in the income statement as an expense on a straight-line basis over the relevant vesting period, based on the Group's estimate of the number of shares that will ultimately vest and adjusted for the effect of non market-based vesting conditions.

1 Accounting policies (continued)

q) Share-based payments (continued)

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.

r) New IFRS accounting pronouncements

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 3 (revised) - Business Combinations
IFRS 7 - Financial instruments: Disclosures
IFRS 8 - Operating Segments
IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 - Scope of IFRS 2
IFRIC 9 - Reassessment of Embedded Derivatives
IFRIC 10 - Interim Financial Reporting and Impairment
IFRIC 11 - IFRS 2: Group and Treasury Transactions
IFRIC 12 - Service Concession Arrangements
IFRIC 13 - Customer Loyalty Programmes
IFRIC 14 - IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
IAS 1 (revised) - Presentation of Financial Statements
IAS 23 (revised) - Borrowing Costs
IAS 27 (revised) - Consolidated and Separate Financial Statements

The Group does not consider that these Standards and Interpretations will have a significant impact on the financial statements of the Group.

s) Critical accounting judgements and key sources of estimation uncertainty

Management is required to make key decisions and judgements in the process of applying the Group's accounting policies. The most significant areas where such judgements have been necessary are acquisition and disposal accounting. Where no judgement has been applied, the key factors taken into consideration are disclosed in the appropriate note in these financial statements.

2 Segment information

All continuing operating activities are derived from the parent company which does not trade, its only activity is to hold the $650m bond.

3 Operating loss

	2006	2005
	$'000	$'000
Operating loss is stated after charging:		
Foreign exchange gain	162	447

The auditors' remuneration of $116,000 (2005 - $116,000) is borne by the ultimate parent company, WPP Group plc.

4 Staff costs and numbers

	2006	2005
	$'000	$'000
Wages and salaries	166,502	176,357
Social security costs	11,556	11,357
Pension costs	7,208	8,859
	185,266	196,573

Certain Group entities participate in a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

All staff costs relate to discontinued operations.

The average number of persons employed by the Group during the year was:

	2006	2005
Branding and Identity, Healthcare and Specialist Communications	1,560	1,537

The directors received no remuneration from the Company during the year. The Company had no other employees during the current year. All staff are employed within discontinued operations.

5 Finance Income

	2006	2005
	$'000	$'000
Interest receivable from other group undertakings	1,302	98
Interest receivable on interest rate swaps	-	2,749
Movement in fair value of treasury instruments	-	1,046
Amortisation of gain on swaps	1,653	-
	2,955	3,893

6 Finance costs

	2006	2005
	$'000	$'000
Interest payable to other group undertakings	4,738	2,270
Interest payable on corporate bonds	38,904	38,897
	43,642	41,167

7 Taxation

	Continuing Operations		Discontinued Operations		Total	
	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000
Current tax	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-
	-	-	-	-	-	-

Corporation tax is calculated at 30% (2005 - 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the profit for the year, approximately $307,928,000 (2005 - $50,720,000) related to profits arising from Wunderman Worldwide LLC, Landor LLC and Commonhealth LLC, which were disposed of during the year. No tax charge or credit arose on the disposal of these subsidiaries.

7 Taxation (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 $'000	2005 $'000
Profit before tax:		
Continuing operations	(50,580)	(44,893)
Discontinued operations	307,928	50,720
	257,348	5,827
Tax at the UK Coporation tax rate of 30% (2005 - 30%)	(77,204)	(1,748)
Profit on disposal of subsidiaries	80,453	-
Tax effect of expenses that are not deductible in determining taxable profit	(484)	-
Adjustment in respect of UK group relief	(14,690)	(14,060)
Adjustment in respect of US tax consolidation	15,901	21,077
Differences between UK and overseas tax rate	(3,795)	(5,269)
Current tax for the year	-	-

8 Discontinued operations

The results of the discontinued operations, which have been included in the consolidated income statement were as follows:

	2006 $'000	2005 $'000
Revenue	333,584	312,825
Operating profit before restructuring	50,746	47,688
Finance income	-	10,431
Finance costs	(10,993)	(7,399)
Profit before taxation for the year	39,753	50,720
Taxation	-	-
Profit on disposal of discontinued operations	268,175	-
Profit for the year from discontinued operations	307,928	50,720

A gain of $268,175,000 arose on the disposal of the three subsidiaries, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

9 Analysis of cash flows

The following table analyses the items included within the main cash flow headings on page 10:

Net cash from operating activities:

	Notes	2006	2005
		$'000	$'000
Profit for the year		257,348	5,827
Adjustments for:			
Gain on disposal of discontinued activities		(268,175)	-
Net interest		40,687	34,243
Net impact of non-cash share-based incentive plans	21	2,621	3,401
Depreciation of property, plant and equipment	12	6,483	5,060
Amortisation of other intangible assets	11	1,831	1,897
Operating cash flow before movements in working capital and provisions		40,795	50,428
Increase in inventories and work in progress		-	(23,268)
Increase in receivables		(118)	(118,733)
(Decrease)/increase in payables - short term		(82,752)	123,543
- long term		709	7,708
Cash generated by operations		(41,366)	39,678
Interest and similar charges paid		(43,642)	(48,566)
Interest received		2,955	14,323
Net cash (outflow)/inflow from operating activities		(82,053)	5,435

Of the above cash flows from operating activities, all items with the exception of cash outflows of $9,893,000 (2005 - $7,619,000) relate to discontinued activities. On the face of the cash flow statement, all cash flows from investing activities relate to discontinued activities, and all cash flows from financing activities relate to continuing activities.

10 Goodwill

	$'000
Cost	
At 1 January 2006	4,238
Additions (see note 19)	54,175
Disposals	(58,413)
At 31 December 2006	-
Amortisation	
At 1 January 2006	1,135
Disposals	(1,135)
At 31 December 2006	-
Net book value	
At 31 December 2006	-
At 1 January 2006	3,103

11 Other intangible assets

	Acquired intangibles $'000	Capitalised computer software $'000	Total $'000
Cost			
At 1 January 2006	-	13,756	13,756
Additions	4,940	1,699	6,639
Disposals	(4,940)	(15,455)	(20,395)
At 31 December 2006	-	-	-
Amortisation			
At 1 January 2006	-	9,065	9,065
Charge for the year	346	1,485	1,831
Disposals	(346)	(10,550)	(10,896)
At 31 December 2006	-	-	-
Net book value			
At 31 December 2006	-	-	-
At 1 January 2006	-	4,691	4,691

12 Property, plant and equipment

	Leasehold premises	Fixtures, fittings & equipment	Computer equipment	Total
	$'000	$'000	$'000	$'000
Cost				
At 1 January 2006	15,197	12,513	13,505	41,215
Additions	8,666	7,345	2,279	18,290
Disposals	(23,863)	(19,858)	(15,784)	(59,505)
At 31 December 2006	-	-	-	-
Depreciation				
At 1 January 2006	11,339	10,166	9,359	30,864
Charge for the year	2,070	1,937	2,476	6,483
Disposals	(13,409)	(12,103)	(11,835)	(37,347)
At 31 December 2006	-	-	-	-
Net book value				
At 31 December 2006	-	-	-	-
At 31 December 2005	3,858	2,347	4,146	10,351

13 Inventories

	2006	2005
	$'000	$'000
Work in progress	-	41,146

14 Trade and other receivables

	2006	2005
	$'000	$'000
Trade receivables	-	12,228
Amounts owed by other group undertakings	-	389,958
Accrued income	-	5,972
Other receivables	2,141	3,834
	2,141	411,992

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

14 Trade and other receivables (continued)

Two group companies, Wunderman Worldwide LLC and Commonhealth LLC, participate in a debt factoring arrangement with a fellow subsidiary undertaking of WPP Group plc, the ultimate parent company. Given the nature of the arrangement, the trade receivables of these companies qualify for derecognition under the provisions of IAS 39 "Financial instruments: recognition and measurement". As a result the related receivables are included within amounts owed by other group undertakings for the year ended 2005, but form part of discontinued operations in the year ended 31 December 2006.

15 Trade and other payables

	2006 $'000	2005 $'000
Bank overdraft	-	4,542
Trade payables	-	42,183
Other taxation and social security	-	654
Deferred income	-	40,857
Interest payable on corporate bonds	1,697	1,697
Amounts owed to other group undertakings	-	194,723
Other creditors and accruals	-	36,662
	1,697	321,318

Bank overdrafts are repayable on demand.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

16 Bonds and bank loans

	2006 $'000	2005 $'000
Corporate bonds	651,731	652,675
Other creditors and accruals	-	718
	651,731	653,393

During 2004, the Group issued $650 million of 5.875% corporate bonds due 2014. The bonds are co-guaranteed by WPP Group plc, the ultimate parent company, and WPP 2005 Limited, a fellow subsidiary undertaking in the WPP Group.

17 Fair value of financial instruments

Derivative financial instruments
On 15 December 2004, derivatives were transferred at fair value to WPP Finance (UK) from WPP Finance Co. Limited, another WPP Group company. The derivatives represented interest rate swaps over $400m of the $650m corporate bonds, used to hedge movements in the bonds' fair value due to changes in interest rates.

At 1 January 2005 on implementation of IAS 32 and 39, the fair value of the swaps was $18,949,000. These swaps were terminated on 7 April 2005 when the fair value was $13,888,000.

Non-derivative financial instruments
The fair value of the $650m bonds at 31 December 2006 was $657.8m (2005 - $656.5m). This is calculated by reference to market prices at 31 December 2006 and 2005. Considerable judgment 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.

18 Share-based payments

The Group charged the following amounts to the income statement in 2006 and 2005 in relation to share-based incentive plans:

	2006	2005
	$'000	$'000
Stock options	1,870	3,113
Other share-based payments	5,722	5,177
	7,592	8,290

Stock options
There are two stock option plans in which certain employees participate. The Worldwide Share Ownership Programme is open to employees with at least two years' employment in a company owned by WPP Group plc. The vesting period for each grant is three years and there are no performance conditions other than continued employment with a WPP company. In both 2006 and 2005, the number of stock options granted under the Worldwide Share Ownership Programme was not material.

The Executive Stock Option Plan has historically been open for participation to WPP Group Leaders, Partners & High Potential Group. The vesting period is three years and performance conditions include achievement of various TSR (Total Shareowner Return) and EPS (Earnings per share) objectives by WPP Group plc, as well as continued employment with a WPP company.

Stock options have a life of ten years, including the vesting period. The terms of stock options with performance conditions are such that, if after nine years and eight months, the performance conditions have not been met, then the stock option will vest automatically. Stock options are satisfied out of newly issued shares in WPP Group plc.

18 Share-based payments (continued)

Stock options (continued)

Movements on stock options granted under the Executive Stock Option Plan were as follows:

No. ('000's)	At 1 January 2006	Granted	Exercised	Lapsed	Transferred out on disposal	Outstanding At 31 December 2006	Exercisable At 31 December 2006
Ordinary shares:	251	-	(32)	(1)	(218)	-	-
ADR's:	757	1	(264)	(46)	(448)	-	-

Weighted-average exercise price for options over:

Ordinary shares (£):	4.86	-	3.30	5.19	5.14	-	-
ADR's ($):	43.67	61.30	35.33	48.62	48.11	-	-

Following the disposal of the company's subsidiary undertakings on 18 December 2006, it has no further stock option commitments.

Other share-based payments

The Group operates a number of equity-settled share incentive schemes, in most cases satisfied by the delivery of stock from one of the WPP Group plc ESOP Trusts. The most significant schemes are as follows:

Performance Share Awards (PSA)

Grants of stock under PSA are dependent upon annual performance targets, typically one or more of: operating profit, profit before taxation and operating margin. Grants are made in the year following the year of performance measurement, and will vest two years after grant provided the individual concerned is continually employed by the Group throughout this time.

Leaders, Partners & High Potential Group

Stock option grants under the executive stock option plan were not significant in 2006 as the Group largely made grants of restricted stock to participants instead under the Leaders, Partners & High Potential Group retricted stock plan. Performance conditions include continued employment over the three-year vesting period.

18 Share-based payments (continued)

Valuation methodology

For all of these schemes, the valuation methodology is based upon fair value on grant date, which is determined by the market price on that date or the application of a Black-Scholes model, depending upon the characteristics of the scheme concerned. Market price on any given day is obtained from external, publicly available sources. For assumptions used in the Black-Scholes model see page 169 of the WPP Group plc annual report for the year ended 31 December 2006.

Market / Non-market conditions

Most share-based plans are subject to non-market performance conditions, such as margin or growth targets, as well as continued employment. The valuation methodology above is applied and, at each year end, the relevant accrual for each grant is revised, if appropriate, to take account of any changes in estimate of the likely number of shares expected to vest.

The weighted average share price of WPP Group plc for the year ended 31 December 2006 was £6.58 (2005 - £5.88).

The following table sets out the number and weighted average fair value of grants made in respect of 2006 for each of the schemes described above:

	Number of Shares granted m	Fair value at grant date Pence per share
Performance Share Award (PSA)	0.3	668
Leaders, Partners & High Potential Group	0.2	675

19 Acquisitions

The Group accounts for acquisitions in accordance with IFRS 3 'Business Combinations'. IFRS 3 requires the acquiree's identifiable assets, liabilities and contingent liabilities (other than non-current assets or disposal groups held for sale) to be recognised at fair value at acquisition date. In assessing fair value at acquisition date, management make their best estimate of the likely outcome where the fair value of an asset or liability may be contingent on a future event. In certain instances, the underlying transaction giving rise to an estimate may not be resolved until some years after the acquisition date. IFRS 3 requires the release to profit of any acquisition reserves which subsequently become excess in the same way as any excess costs over those provided at acquisition date are charged to profit. At each period end management assess provisions and other balances established in respect of acquisitions for their continued probability of occurrence and amend the relevant value accordingly through the income statement or as an adjustment to goodwill as appropriate under IFRS 3.

The Group acquired two subsidiaries in the year, Bridge Worldwide LLC acquired in January 2006, and Shaw Marketing Group, LLC acquired in August 2006. The Group also acquired the trade and assets of ZAAZ Inc in July 2006. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group.

	Book value at acquisition $m	Fair value adjustments $m	Fair value to Group $m
Intangible assets	-	4,940	4,940
Property, plant and equipment	1,495	-	1,495
Current assets	9,426	-	9,426
Total assets	10,921	4,940	15,861
Current liabilities	5,171	-	5,171
Trade and other payables due after one year	2,207	-	2,207
Provisions	222	-	222
Total liabilities	7,600	-	7,600
Net assets	3,321	4,940	8,261

Goodwill	54,175
Consideration	62,436
Considered satisfied by:	
Cash	20,028
Payments due to vendors	42,347
Capitalised acquisition costs	61

The contribution to revenue and operating profit of acquisitions completed in 2006 was not material to the group. All acquisitions were sold as part of the Group reconstruction in December 2006.

There were no acquisitions completed between 31 December 2006 and the date the financial statements have been authorised for issue.

20 Disposal of subsidiaries

As referred to in note 8, on 18 December 2006, the Company disposed of its interests in Wunderman Worldwide LLC, Landor LLC and Commonhealth LLC. The results for these companies for the current financial year to the date of disposal are disclosed in note 8. The net assets of at the disposal date were as follows:

	At 18 December 2006 $'000
Goodwill	57,278
Other intangible assets	9,499
Property, plant and machinery	22,156
Cash	340
Inventories	33,354
Trade receivables	16,187
Amounts due to other Group undertakings	562,162
Other receivables	22,301
Trade payables	(38,742)
Amounts due from other Group undertakings	(323,825)
Other payables	(109,873)
	250,837
Gain on disposal	268,175
Total consideration	519,012
Satisfied by: cash consideration	519,012
Net cash arising on disposal:	
Net cash consideration	519,012
Overdrafts less cash disposed of	340
Net assets	519,352

21 Equity share owners' funds

Movements during the year were as follows:

	Ordinary share capital $'000	Share premium $'000	Merger reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2005	-	-	(613,663)	120,244	(493,419)
Net profit for the year	-	-	-	5,827	5,827
Net impact of non-cash share-based incentive plans	-	-	-	3,401	3,401
Impact of adoption of IAS 32 and IAS 39 on 1 January 2005	-	-	-	(19,237)	(19,237)
Balance at 31 December 2005	-	-	(613,663)	110,235	(503,428)
Issue of ordinary shares	-	243,967	-	-	243,967
Net profit for the year	-	-	-	257,348	257,348
Impact of Group reconstruction	-	-	613,663	(613,663)	-
Net impact of non-cash share-based incentive plans	-	-	-	2,621	2,621
Balance at 31 December 2006	-	243,967	-	(243,459)	508

The cumulative amount of goodwill written off against the Group's reserves is $62,696,000 (2005 - $62,696,000).

For share capital movements see note 27.

Company balance sheet
At 31 December 2006

	Notes	2006 $'000	2005 $'000
Fixed assets			
Investments	23	-	519,012
		-	519,012
Current assets			
Debtors	24	8,964	8,846
Cash at bank		651,795	1,393
		660,759	10,239
Creditors: amounts falling due within one year	25	(1,697)	(62,521)
Net current assets/(liabilities)		659,062	(52,282)
Total assets less current liabilities		659,062	466,730
Creditors: amounts falling due after more than one year	26	(644,620)	(643,911)
Net assets/(liabilities)		14,442	(177,181)
Capital and reserves			
Called-up equity share capital	27	-	-
Share premium	29	243,967	-
Profit and loss account	28	(229,525)	(177,181)
Shareholders' funds/(deficit)	29	14,442	(177,181)

The financial statements were approved by the Board of directors on 30 June 2008 and signed on its behalf by:

C. Sweetland Director

As provided by Section 230, Companies Act 1985, the profit and loss for the Company has not been presented. Included within the consolidated profit and loss account for the financial year is a loss of $52,344,000 (2005 - $46,864,000) in respect of the Company. This includes an impairment charge of $nil (2005 - $162,000).

22 Accounting policies

The principal accounting policies of WPP Finance (UK) (the Company) are summarised below. They have all been applied consistently throughout the year and the prior 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.

b) Translation of foreign currency

Foreign currency transactions arising from operating activities are translated from local currency into US dollars at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are translated at the period end exchange rate. Foreign currency gains or losses are credited or charged to the profit and loss account as they arise.

c) Investments

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

d) 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.

e) Cash flow statement

The company is a wholly owned subsidiary of WPP Group Plc and the cash flows of the company are included in the consolidated cash flow statement of WPP Group Plc. Consequently the company is exempt under Financial Reporting Standard No.1 (revised) from the requirement to prepare a cash flow statement.

f) Borrowings

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.

23 Fixed asset investments

	$'000
Cost	
At 1 January 2006	625,174
Disposals	(625,174)
At 31 December 2006	-
Provision for impairment	
At 1 January 2006	106,152
Disposals	(106,152)
At 31 December 2006	-
Net book value	
At 31 December 2006	-
At 31 December 2005	519,012

On 18 December 2006, the Company disposed of its investments in Wunderman Worldwide LLC, Landor LLC and Commonhealth LLC to another group company for cash consideration of $519,012,000. No gain or loss was realised in respect of this transaction.

24 Debtors

	2006	2005
	$'000	$'000
Other debtors	8,964	8,846

On 15 December 2004, WPP Finance Co. Ltd transferred to WPP Finance (UK) a series of interest rate swaps over $400m of the $650m corporate bond to hedge movements in the bond's fair value. On 7 April 2005, these swaps were terminated for cash consideration of $13,888,000. The loss realised in respect of this transaction was $9,427,000. The Directors consider that this loss should be amortised over the life of the bond to give a true and fair representation of the transaction. The amortisation charged to the profit and loss account in 2006 in respect of this loss is $1,019,000 (2005 - $764,000).

25 Creditors: amounts falling due within one year

	2006	2005
	$'000	$'000
Interest payable on corporate bonds	1,697	1,697
Amounts owed to other group undertakings	-	60,824
	1,697	62,521

26 Creditors: amounts falling due after more than one year

	2006	2005
	$'000	$'000
Corporate bonds	644,620	643,911

During 2004, the Group issued $650 million of 5.875% corporate bonds due 2014, which are listed on the Luxembourg stock exchange. The bonds are co-guaranteed by WPP Group plc, the ultimate parent company, and WPP 2005 Limited, a fellow subsidiary undertaking in the WPP Group.

The bonds are shown net of issue costs of $5,380,000 (2005 - $6,089,000).

27 Called-up equity share capital

	2006	2005
	$	$
Authorised		
2,000,000,000 (2005 - 2,000,000,000) ordinary shares of £1 each (at exchange rate of 1.8326)	3,665,200,000	3,665,200,000
Allotted, called-up and fully-paid		
3 (2005 - 2) ordinary shares of £1 each	6	4

During the year, the company issued one £1 ordinary share at a premium of $243,966,998 to another group company for cash consideration.

28 Reserves

	Share premium account $'000	Profit and loss account $'000	Total $'000
At 1 January 2006	-	(177,181)	(177,181)
Retained loss for the year	-	(52,344)	(52,344)
Issue of ordinary shares	243,967	-	243,967
At 31 December 2006	243,967	(229,525)	14,442

29 Reconciliation of movements in shareholders' funds

	2006 $'000	2005 $'000
Loss for the year	(52,344)	(46,864)
Issue of ordinary shares	243,967	-
Net reduction/(addition) in shareholders' funds/(deficit)	191,623	(46,864)
Opening shareholders' deficit	(177,181)	(130,317)
Closing shareholders' funds/(deficit)	14,442	(177,181)

30 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 a clearing bank.

31 Controlling parties and related parties

The directors regard WPP Finance Square LLC, a company incorporated in United States, 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.

WPP Group plc is the parent undertaking of the largest group of which the Company is a member, for which group accounts are drawn up. Copies of the financial statements of WPP Group plc are available 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.