Accounting policies

The consolidated financial statements of WPP Group plc (the Group) for the year ended 31 December 2005 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 disclosures required by IFRS 1 (First-time Adoption of International Financial Reporting) concerning the transition from applicable accounting standards in the United Kingdom (UK GAAP) to IFRS are shown on pages 172 to 176.

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

IFRS 1 exemptions

IFRS 1 allows a number of exemptions from the full requirements of IFRS for those companies adopting IFRS for the first time. The Group has taken advantage of certain of these exemptions as follows:

Financial instruments

The Group has taken advantage of the exemption available under IFRS 1 not to apply IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation) in respect of the year ended 31 December 2004. UK GAAP has continued to be applied in accounting for financial instruments in this period. The Group has adopted IAS 39 and IAS 32 with effect from 1 January 2005 and consequently restated the balance sheet at that date in accordance with the requirements of these standards, which generally means a recognition of financial instruments at fair value.

Business combinations

The Group has elected not to apply IFRS 3 (Business combinations) retrospectively to business combinations that completed prior to 1 January 2004. However, the Group took the option to apply IAS 21 (the effects of changes in foreign exchange rates) retrospectively to fair value adjustments and goodwill arising in all business combinations that occurred before the date of transition to IFRS.

Share-based payments

IFRS 2 (Share-based payments) applies to all share-based payments granted since 7 November 2002, but the Group has elected for full retrospective restatement as this better represents the ongoing charge to the income statement.

Basis of accounting and presentation of financial statements

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

Basis of consolidation

In October 2005, pursuant to a Scheme of Arrangement under s425 of the Companies Act 1985, a new parent company was introduced which is now called WPP Group plc (Newco). The previous parent company has been renamed and re-registered as WPP 2005 Limited (Oldco).

The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Therefore, although the Group reconstruction did not become effective until October 2005, the consolidated financial statements of WPP Group plc are presented as if Newco and Oldco had always been part of the same Group. Accordingly, the results of the Group for the entire year ended 31 December 2005 are shown in the consolidated income statement and the comparative figures for the year ended 31 December 2004 are also prepared on this basis. Earnings per share are unaffected by the reorganisation.

The consolidated financial statements include the results of Newco and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired or disposed of during the period are included or excluded from the income statement from the effective date of acquisition or disposal.

Goodwill and other intangible assets

Intangible assets comprise goodwill, certain acquired separable corporate brand names, customer relationships 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