

securities carrying voting rights. The offer must be made in cash, or have a cash alternative, for at least the highest price paid by the offer or persons acting in concert with it for any interest in shares of that class during the 12 months prior to the announcement of that offer.

#### **Disclosure of interests in shares**

The Companies Act 1985 gives WPP power to require persons who it knows, or reasonably believes are, or have been within the previous three years, interested in its relevant share capital to disclose prescribed particulars of those interests. For this purpose “relevant share capital” means issued share capital of WPP carrying the right to vote in all circumstances at a general meeting of WPP. Failure to provide the information requested within a prescribed period after the dates of sending of the notice may result in sanctions being imposed against the holder of the relevant shares as provided in the Companies Act 1985. Under our articles of association, WPP may also apply the following restrictions: the withdrawal of voting and certain other rights of such shares of the class, restrictions on the rights to receive dividends and to transfer such shares. In this context, the term “interest” is broadly defined and will generally include an interest of any kind in shares, including the interest of a holder of a WPP ordinary share.

In addition, under the Companies Act 1985, any person who acquires either alone or, in certain circumstances, with others a direct or indirect interest in the relevant share capital of WPP in excess of the “notifiable percentage”, currently 3% or 10% for certain types of interest, is obligated to disclose prescribed information to WPP with respect to those shares within two days. An obligation of disclosure also arises where such person’s notifiable interest subsequently falls below the notifiable percentage or where, above that level, the percentage, expressed in whole numbers of WPP’s relevant capital in which such person is interested increases or decreases.

#### **C. Material Contracts**

We did not enter into any material contracts outside the ordinary course of business during the two years immediately preceding publication of this report.

#### **D. Exchange Controls**

Until 21 October 1979, the rules issued under the United Kingdom Exchange Control Act of 1947 imposed restrictions on remittances by United Kingdom residents to persons not resident in the United Kingdom or certain other territories. These restrictions did not apply to remittances of dividends to persons resident or treated as resident in the United States or Canada who were not domiciled in the United Kingdom.

The legislation pursuant to which such exchange controls were imposed has been repealed and there are currently no such United Kingdom foreign exchange control restrictions on remittances of dividends on the ordinary shares or on the conduct of the Registrant’s operations.

#### **E. Taxation**

The taxation discussion set forth below is intended only as a descriptive summary and does not purport to be a complete technical analysis or listing of all potential tax effects relevant to a decision to purchase, hold or in any way transfer ordinary shares or ADRs. The statements of United Kingdom and United States tax laws set out below are based on the laws in force as of the date of this Annual Report, and are subject to any changes in United States or United Kingdom law, and in any double taxation convention between the United States and the United Kingdom, occurring after that date. The most recent double taxation convention between the United States and the United Kingdom (“US-UK Income Tax Treaty”) entered into force on 31 March 2003 and applies to taxes withheld at source on or after 1 May 2003.

The following summary of United States and United Kingdom tax consequences is not exhaustive of all possible tax considerations and should not be considered legal or tax advice. Prospective purchasers of ADRs are advised to satisfy themselves as to the overall tax consequences of their ownership of ADRs and the ordinary shares represented thereby by consulting their own tax advisors. In addition, this summary does not address the taxation of a United States shareholder (either corporate or individual) where the shareholder controls, or is deemed to control, 10% or more of the voting stock of the Company.

As used herein, the term "United States corporation" means any corporation organised under the laws of the United States or any state or the District of Columbia.

For the purposes of the current US-UK Income Tax Treaty and for the purposes of the United States Internal Revenue Code of 1986, as amended (the "Code"), discussed below, the holders of ADRs will be treated as the owners of the underlying ordinary shares represented by the ADRs that are evidenced by such ADRs.

#### **Taxation of Dividends**

**United Kingdom Residents.** The notional tax credit that will be available for an individual shareholder resident in the United Kingdom will be 1/9th of the dividend. Tax credits are not repayable to UK holders with no tax liability. Individuals whose income is not within the higher income tax band are liable to tax at 10% on the dividend income and the notional tax credit will satisfy their income tax liability on UK dividends. The higher rate of tax on dividend income is 32.5%, which after taking into account the notional tax credit, gives an effective tax rate of 25%.

**United States Residents.** For dividends paid, there will be no withholding tax on the distribution and there will no longer be any entitlement to offset any part of the UK taxation credit against any US taxation liability. The dividend received (without any gross up for withholding tax suffered or tax credits) will be subject to US taxation. According to the JGTRRA (Jobs and Growth Tax Relief Reconciliation Act of 2003), certain dividends received from domestic corporations and qualifying foreign corporations (e.g., WPP Group plc) will be taxed at a maximum rate of 15%. To be eligible for the 15% rate, the stock must be held by the shareholder for more than 61 days during the 121-day period beginning 60 days before the ex-dividend date; shareholders are advised to consult their professional advisors accordingly.

#### **Distribution Ordering Rules**

The gross dividend (the sum of the dividend paid by the Company plus any related United Kingdom tax credit) will be treated as foreign source dividend income for United States Federal income tax purposes provided that such dividend is paid out of the Company's earnings and profits, as defined for United States Income Tax purposes. If the dividend is not paid out of earnings and profits, it will be treated as a return of capital (up to the holders' tax basis in their shares). Any excess above the combination of the amounts treated as dividends and returns of capital will be treated as a capital gain.

#### **Taxation of Capital Gains**

An individual shareholder resident in the United Kingdom will be liable to United Kingdom taxation on capital gains realised on the disposal of their ADRs or ordinary shares.

Holders of ADRs or ordinary shares who are United States resident individuals or United States corporations, and who are not resident or ordinarily resident in the United Kingdom, will not be liable to

United Kingdom taxation of capital gains realised on the disposal of their ADRs or ordinary shares unless the ADRs or ordinary shares are used or held for the purposes of a trade carried on in the United Kingdom through a permanent establishment. However, a holder of ADRs or ordinary shares who is a United States citizen or a United States resident (as defined above) will be liable to taxation on such capital gains under the laws of the United States. The JGTRRA lowers the maximum tax rate on capital gains from 20% to 15% for regular tax and alternative minimum tax purposes. The rate applies to capital assets (i.e., ADRs and ordinary shares) held for more than one year. The new rate is effective for taxable years ending on or after 6 May 2003, and beginning before 1 January 2009, with special rules for taxable years including 6 May 2003.

#### **Estate and Gift Tax**

The current Estate and Gift Tax Convention between the United States and the United Kingdom generally relieves from United Kingdom inheritance tax (the equivalent of United States estate and gift tax) the transfer of ordinary shares or of ADRs where the shareholder or holder of the ADRs making the transfer is domiciled for the purposes of the Convention in the United States and is not a national of the United Kingdom. This will not apply if the ordinary shares or ADRs are part of the business property of an individual's permanent establishment in the United Kingdom or are related to the fixed base in the United Kingdom of a person providing independent personal services.

If no relief is given under the Convention, inheritance tax will be charged at a rate worked out on a cumulative basis on the amount by which the value of the transferor's estate is reduced as a result of any transfer (unless the transfer is exempt or "potentially exempt") made by way of gift or other gratuitous transaction by an individual or on the death of an individual or into certain defined trusts.

Potentially exempt transfers are transfers made to certain specified classes of person and become wholly exempt if made at least more than seven years before the death of the transferor and it becomes chargeable if not so made. Special rules apply to gifts made subject to a reservation of benefit. In the unusual case where ordinary shares or ADRs are subject to both United Kingdom inheritance tax and United States gift or estate tax, the Convention generally provides for tax paid in the United Kingdom to be credited against tax payable in the United States or for tax paid in the United States to be credited against tax payable in the United Kingdom based on priority rules set forth in the Convention.

#### **Stamp Duty and Stamp Duty Reserve Tax**

No UK Stamp Duty will be payable on any transfer of an ADR or on any delivery or negotiation of an ADR, provided that the instrument of transfer is executed and remains outside the UK nor will there be any liability to Stamp Duty Reserve Tax in respect of any agreement for the transfer of ADRs. Dealings in ADRs in bearer form outside the UK will be free of Stamp Duty, but certain bearer dealings within the UK may attract Stamp Duty at the rate of 1.5%.

There will be a charge to ad valorem Stamp Duty on any instrument transferring ordinary shares to a nominee or agent for a depositary which then issues depositary receipts (such as the ADRs). Where the instrument is liable to Stamp Duty as a "conveyance on sale" then the rate of duty is 1.5% of the consideration for the sale implemented by the instrument. Where the instrument of transfer is not stampable as a conveyance on sale, then the rate of duty is 1.5% of the market value of the security transferred by the instrument.

There is a charge to Stamp Duty Reserve Tax where ordinary shares are transferred or issued to, or appropriated by, a depositary or a nominee or agent for a depositary under an arrangement under which the depositary issues ADRs. Stamp Duty Reserve Tax, which is payable by the depositary, is