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WPP

2007 PRELIMINARY RESULTS

Billings up over 5% to £31.7 billion
Revenue up almost 5% to £6.186billion
Constant currency revenue up over 8%
Like-for-like revenue up 5%
Headline EBITDA rises over 7% to £1.072 billion
Headline operating margin up 0.5 margin points to 15.0%
Headline operating profit before interest and tax up 8% to £928 million
Headline Profit before tax up almost 7% to £817 million
Profit before tax up over 5% to £719 million
Diluted headline earnings per share up over 9% at 46.0p
Final dividend up 20% to 9.13p per share

- Billings up over 5% to £31.7 billion.
- Reported revenue up 4.7% to £6.186 billion, up 8.2% in constant currency.
- Like-for-like revenue up 5.0%.
- Headline EBITDA rises over 7% from £1.002 billion to £1.072 billion.
- Headline operating profits before interest and tax up 8.0% to £928 million from £859 million.
- Operating margin up 0.5 margin points to 15.0% from 14.5%.
- Headline profits before tax up 6.7% to £817 million from £766 million.
- Profit before tax up 5.5% to £719 million from £682 million.
- Diluted headline earnings per share up 9.5% to 46.0p from 42.0p.
- Reported diluted earnings per share up 8.0% to 38.0p from 35.2p.
- Final dividend up 20% to 9.13p per share making a total for the year of 13.45p up 20% over 2006.
- Average net debt up £305 million to £1,458 million from £1,153 million (at 2007 exchange rates).
- Record estimated net new billings of over £5.0 billion ($9.8 billion).
- Operating margin targets of 15.5% and 16.0% remain in place for 2008 and 2009.
- Rolling share-buyback programme to continue at 4-5% of outstanding share capital in 2008.

In this press release not all of the figures and ratios used are readily available from the unaudited preliminary results included in Appendix I. Where required, details of how these have been arrived at are shown in the Appendix.

Summary of results

The Board of WPP Group plc ("WPP") announces the unaudited preliminary results for the year ended 31 December 2007, the Group's twenty-second year. These record results again reflect the continued steady strength of the world economy, despite the current credit and liquidity crisis, positively impacting almost all disciplines and geographies and the strength of the Group's operating brands and franchise. 2007 also saw an historically unprecedented run of new business wins across the Group, building a strong base for 2008.

Billings were up 5.1% at £31.7 billion, around $63.5 billion.

Reportable revenue was up 4.7% to £6.186 billion. Revenue, including 100% of associates, is estimated to total over £7.3 billion. On a constant currency basis, revenue was up 8.2%, chiefly due to the 8.6% decline in the US dollar against the pound sterling. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were up 5.0%. On the same basis, gross margin was up 5.1%. Like-for-like revenues were up 5.3% in the first half of 2007 and up 4.8% in the second half, continuing the strong organic growth of 5.4% in 2006. Fourth quarter revenues were up 4.9%.

The relative weakness of the US dollar against the pound sterling has highlighted currency differences between those companies that report in US dollars and those that report in pounds sterling. So that comparisons can more easily be drawn, we have summarised here the key income statement numbers, as if the Group had reported in US dollars in 2007. On this basis, revenues were up 13.6% to $12.4 billion, headline profits were up 16.5% to $1.865 billion and diluted headline earnings per share up 18.1% to 92.6¢. Appendix 2 shows WPP's preliminary results in reportable US dollars.

Headline earnings before interest, depreciation and amortisation ("Headline EBITDA") rose 7.1% to £1.072 billion and 9.2% in constant currencies. Headline operating profit was up 8.0% to £928 million and up 10.1% in constant currencies.

Reported operating costs together with direct costs (but excluding goodwill impairment, amortisation of acquired intangibles and profits on disposal of fixed asset investments), rose by 4.2% and by 7.9% in constant currency. Like-for-like total operating and direct costs rose 4.6%. Reported staff costs, excluding incentives (which includes the cost of share-based compensation), were up 4.6%. Incentive payments (including the cost of share-based compensation) totalled £230.7 million (£246.9 million in 2006), down 6.6%, which represents 20.6% (23.1% in 2006) of headline operating profit before bonuses and income from associates. Before these incentive payments, operating margins remain strong at 18.7%. On a reported basis, the Group's staff cost to revenue ratio improved 0.5 margin points to 58.3% compared with 58.8% in 2006.

Part of the Group's strategy is to continue to increase variable staff costs as a proportion of total staff costs and revenue, as this provides flexibility to deal with volatility in revenues and recessions or slow-downs. Through the cyclical upswing of the 1990s, variable staff costs as a proportion of total staff costs increased, reaching a peak of 12.1% in 2000. The impact of the recession in 2001 and 2002 was to reduce this ratio to 9.2% and variable staff costs as a proportion of revenue to 5.3% (calculated under 2004 UK GAAP). In 2004, following the significant improvement in pre-bonus operating profit and incentives, variable staff costs as a proportion of staff costs increased. There was a slight deterioration in 2005, with the ratio declining slightly by 0.4 percentage points, to 12.8% (under IFRS – which includes 1.0 percentage points attributable to share-based compensation), but in 2006 the ratio strengthened again to 13.0%. In 2007 the proportion changed marginally by 0.3 percentage points to 12.7%.

The number of people in the Group averaged 84,848 against 77,686 in 2006, an increase of 9.2%. On a like-for-like basis, average headcount was up to 84,848 from 81,086, an increase of 4.6%. At the end of 2007, staff numbers were 90,182 compared with 86,254 at the end of 2006 on a like-for-like basis, an increase of 4.6%.

Headline operating profit or profit pre-goodwill impairment, amortisation of acquired intangibles, interest, tax and investment gains and write-downs was up 8.0% to £928 million from £859 million and up 10.1% in constant currencies. Reported profit before interest and tax was up 8.1% to £846 million from £783 million and up 10.0% in constant currencies. Headline profit before tax or profit pre-goodwill impairment, amortisation of acquired intangibles, investment gains and write-downs, revaluation of financial instruments and tax was up 6.7% to £817 million from £766 million and up 8.8% in constant currencies. Reported headline operating margin (including income from associates) increased 0.5 margin points to a record 15.0% from 14.5%, in line with the revised target set in February 2007.

Net finance costs (excluding the revaluation of financial instruments) were £110.7 million up from £92.7 million last year, largely reflecting higher interest rates, the impact of the cash cost of the acquisition of 24/7 Real Media Inc. in July 2007, partly offset by improved liquidity as a result of a reduction in average working capital.

Reported profit before tax rose by 5.5% to £719 million, and by 7.4% in constant currencies.

The Group's tax rate on headline profits was 25.0%, a reduction of one percentage point over 2006. This reflects the continuing positive impact of the Group's tax planning initiatives.

Diluted headline earnings per share were up 9.5% at 46.0p. In constant currency, earnings per share on the same basis were up 13.6%. Diluted earnings per share rose by 8.0% to 38.0p and by 12.0% in constant currencies.

The Board recommends an increase of 20% in the final dividend to 9.13p per share, making a total of 13.45p per share for 2007, a 20% increase over 2006. The record date for this dividend is 6 June 2008, payable on 7 July 2008. The dividend paid in 2007 is over four times covered by headline earnings.

Further details of WPP's financial performance are provided in Appendix I.

<u>Review of operations</u>

The financial world's sub-prime and insurance monoline credit crisis had little or no impact on the Group's financial performance in 2007.

Despite the lack of any maxi-quadrennial or mini-quadrennial events, the Group's financial model continued to deliver, with like-for-like revenues growing at around 5% and operating profits up around 10%, and with operating margins growing in-line with the target of 0.5 margin points. Small- and medium-sized acquisitions brought constant currency revenue growth into the 5-10% range and earnings per share growth into the 10-15% range, with share buy-backs further driving earnings per share growth towards 15%. All geographical and functional segments showed growth. Three geographical growth speeds remain though – fastest growth in Asia Pacific, Latin America, Africa, the Middle East and Central and Eastern Europe; a surprisingly steady speed in the United States; and a slower speed in Western Europe.

2007 also marked continued client focus on top-line growth, as corporate profitability, margins and liquidity continued to improve significantly. Corporate profitability remains at historically high levels on both sides of the Atlantic. This resulted in continued high levels of new business activity.

Network television price inflation and declining audiences, fragmentation of traditional media and rapid development of new technologies continued to drive experimentation by our clients in new media and non-traditional alternatives. 1998 was really the first year when WPP's marketing services activities represented over 50% of Group revenue. By 2004, these activities represented almost 54% of Group revenue. In 2005, they represented 52%, as media investment management was again the fastest growing part of our business, following major success in winning media planning and buying consolidations, and reflected the first time inclusion of Grey Worldwide and MediaCom. In 2006, the underlying relative strength of the inaptly named "below-the-line" services re-asserted itself, as marketing services grew to 52.5% of revenues. In 2007, they grew further to 53.8%. In addition, in 2007, our broadly-defined internet-related revenue was almost $2.8 billion or 23% of our worldwide reported revenue and our narrowly-defined internet-related revenue was almost $1.5 billion or 12% of our worldwide reported revenue. These are both more than the 10% for on-line media's share of total advertising spend both in the United States and worldwide. The new media continue to build their share of client spending.

Revenue and operating profit by region

The pattern of revenue growth differed regionally. The table below gives details of revenue and revenue growth (on a constant currency basis including the impact of acquisitions) by region for 2007 as well as proportions of operating profits:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 07/06	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 07/06
North America	37.6	7.6	43.5	3.8
United Kingdom	14.4	4.0	11.6	2.1[1]
Continental Europe	26.1[2]	7.0	23.1	3.9
Asia Pacific, Latin America, Africa & the Middle East	21.9[2]	13.7	21.8	10.9
Total Group	100.0	8.2	100.0	5.0

[1] Gross margin up 3.4%

[2] If Central and Eastern Europe is included with the faster growing markets of Asia Pacific, Latin America, Africa and the Middle East, the proportion of Group revenues represented by these markets rises to 24.4% and Continental Europe falls to 23.6%.

The United States continues to grow, with like-for-like growth of almost 4%, Latin America remained one of the fastest growing regions, as it has been over the last three years, accelerating in the second half to almost 14%. Asia Pacific remained strong across the region, with Mainland China and India growing fastest, with like-for-like growth rates of over 31% and almost 23% respectively. Continental Europe, although relatively more difficult, improved significantly in the second half, with like-for-like growth of almost 5%. In the final quarter, like-for-like growth was over 6%. The United Kingdom was broadly similar in the first half, with second half like-for-like growth of 2%. As seen in the first half, but even more pronounced in the second half, rates of growth in Europe continue to be two-paced, with Western Continental Europe softer and Central and Eastern Europe, Russia and the other CIS countries, in particular, more buoyant. Of the big five Western European markets, Spain remains a stronger growth market (though there are now real estate bubble worries), although Germany and Italy began to show some renewed signs of life. The faster growing markets of Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe now account for over 24% of revenues, against the target of one-third over the next 5-10 years.

Estimated net new billings of £5.03 billion ($9.81 billion) were won last year, reflecting an historically unprecedented run of net new business wins in the final quarters of 2007. The Group was ranked first in the major new business surveys for 2007.

Revenue and operating profit by communications services sector and brand

The pattern of revenue growth also varied by communications services sector and brand. The table below gives details of revenue and revenue growth by communications services sector for 2007 (on a constant currency basis including the impact of acquisitions) as well as proportions of operating profits:

Communications services	Revenue as a % of Total Group	Revenue growth % +/(-) 07/06	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 07/06
Advertising, Media Investment Management	46.2	5.1	49.9	4.5
Information, Insight & Consultancy	14.6	4.5	11.2	2.7[1]
Public Relations & Public Affairs	10.5	12.6	11.7	8.2
Branding & Identity, Healthcare & Specialist Communications	28.7	14.1	27.2	6.1
Total Group	100.0	8.2	100.0	5.0

[1] Gross margin up 4.0%

Media investment management continued to show the strongest growth of all our communications services over 14%, along with direct, internet and interactive (part of specialist communications) and public affairs. This makes it four years in a row, when like-for-like revenue growth in media investment management was 14% or over, almost three times the average for the Group, as a whole, of 5-6% over the same period. Direct and digitally-related activities now account for over 23% of the Group's revenues, which are running at the rate of over $12 billion per annum. Brand advertising, particularly in the new faster growing markets, along with information, insight & consultancy and branding & identity, show consistent growth. Public relations and public affairs also continues to show significant improvement over last year, following a strong year in 2006. The new technologies have demonstrated the power of editorial publicity through fast-growing new applications of new technology such as MySpace, YouTube, Facebook, Flickr and Wikipedia, along with the difficulties of making money on social networking sites through advertising, as even Facebook found out with Beacon. Media investment management and information, insight & consultancy combined, grew their gross margins by well over 10% on a like-for-like basis, ahead of independent competitors.

Advertising and Media Investment Management

In constant currencies, advertising and media investment management revenue grew by over 5%. Like-for-like revenue growth was 4.5%. The combined operating margin of this sector is now 16.0%.

In 2007, Ogilvy & Mather Worldwide, JWT, Y&R Advertising, Grey Worldwide and United Red Cell generated estimated net new billings of £723 million ($1.4 billion).

Also in 2007, GroupM, the Group's media investment management company, which includes MindShare, Mediaedge:cia, MediaCom and MAXUS generated estimated net new billings of £3.686 billion ($7.188 billion).

Information, Insight and Consultancy

On a constant currency basis information, insight and consultancy revenues grew over 4%, with like-for-like revenues up almost 3%. Gross margin grew by 4.0% on a like-for-like basis. Overall margins improved by 0.3 margin points to 11.3%.

Strong performances were recorded by Millward Brown (MaPS in the United States, Canada, Millward Brown and Dynamic Logic in the United Kingdom, Hungary, Italy, Centrum in the Netherlands, Poland, Spain, Turkey, Impact in South Africa, Australia ACSR in China, the Philippines, Singapore, Colombia, Brazil and Mexico); BMRB International in the United Kingdom, Mediafax; Research International (in the United Kingdom, Italy, SIFO in Norway, South Africa, Mexico, New Zealand, Hong Kong, Malaysia, Singapore and Thailand); Ziment in the United States and All Global in the United Kingdom; IMRB in India; Lightspeed Research in the United Kingdom; Mattson Jack in the United States, Icon Added Value in Germany, Spain, Japan; RMS in-store in the United Kingdom.

Public Relations and Public Affairs

Public relations and public affairs continued its strong growth with constant currency growth of over 12% and like-for-like growth of over 8%. Particularly strong were Hill & Knowlton, Burson-Marsteller, Ogilvy Public Relations Worldwide, Finsbury and Clarion in the UK and Public Strategies in the USA.

Operating margins continued to improve and are now over 16.5%, an improvement of 1.5 margin points over the previous year.

Branding and Identity, Healthcare and Specialist Communications

The Group's branding and identity, healthcare and specialist communications revenues rose by over 14%. Like-for-like revenues rose by over 6%. Operating margins were down slightly by 0.2 margin points. The Group's direct, internet and interactive businesses showed particularly strong revenue growth.

Several companies performed particularly well:

- in branding and identity – Landor Associates in New York and Chicago in the United States, the United Kingdom, France, Germany, Italy, Dubai, Hong Kong and Australia; The Brand Union (formerly Enterprise IG) in the United States, France, Germany, Ireland, Spain, South Africa, China, Hong Kong, Japan, Singapore and Ray & Keshavan in India, Addison and the Partners in the United Kingdom; Fitch in the United Kingdom, Peclers in France, Norway and Dubai.

- in healthcare – Sudler & Hennessey in the United Kingdom, France, Germany, Italy, Sydney in Australia, China and India; Grey Healthcare Group in Catalyst Online, Innovative Customer Solutions, BrandEdge and Insight Medical Communications in the United States, WG Consulting and Grey Healthcare London in the United Kingdom, Australia and Japan; in Ogilvy Healthworld in the United States, Canada, the United Kingdom, France, the Netherlands, Spain, Switzerland and Turkey.

- in promotion and direct marketing – OgilvyOne (in Global Strategies, Eicoff, The Lacek Group, Leopard, San Francisco and Neo@Ogilvy in the United States, Neo@Ogilvy in Canada, Neo@Ogilvy and OgilvyOne London in the United Kingdom, Ireland, Denmark, France, Portugal, Italy, Sweden, the Czech Republic, Poland, Russia, Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Malaysia and Singapore); 141 Worldwide; Wunderman (in San Francisco, Seattle, RTC, KBM, Fortelligent, Studiocom and ZAAZ in the United States, Canada, Burrows, Good Technology and iMpact in the United Kingdom, Belgium, Denmark, Germany, the Netherlands, Italy, Switzerland, the Czech Republic, Aqua On-Line in South Africa, Argentina, Brazil, Mexico, Singapore, Thailand); RMG Connect (in the United States, Canada, Mexico, Hong Kong, India, Japan and Singapore); G2 (in Direct & Digital and Interactive Marketing in the United States, Joshua in the United Kingdom, Germany, Russia, Colombia, Chile, China, Hong Kong, Japan, Korea and Taiwan).

- in specialist marketing resources – Bridge, VML and The Geppetto Group in the United States, Metro Group, The Farm and Spafax and Headcount in the United Kingdom.

Manufacturing

Revenues and profits at the Group's manufacturing division were disappointingly down in 2007.

Balance sheet and cash flow

The unaudited preliminary Group consolidated balance sheet as at 31 December 2007 is attached in Appendix I. As at 31 December 2007, the Group's net debt increased to £1.286 billion compared with £815 million at 31 December 2006, largely reflecting acquisition spend and share repurchases.

Net debt averaged £1,458 million in 2007, up £305 million from £1,153 million in 2006 (at 2007 exchange rates). These net debt figures compare with a current equity market capitalisation of approximately £7.4 billion, giving a total enterprise value of approximately £8.9 billion.

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2007, operating profit before goodwill impairment, amortisation of acquired intangible assets and charges for non-cash based incentive plans was £950 million, capital expenditure £171 million, depreciation £144 million, tax paid £151 million, interest and similar charges paid £106 million and other net cash inflows of £32 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £698 million. This free cash flow was absorbed by £675 million in net acquisition payments and investments, share repurchases and cancellations of £415 million and dividends of £139 million. This resulted in a net outflow of £531 million. An unaudited consolidated cash flow statement is included in Appendix I.

In the first seven weeks of 2008, up until 22 February, the last date for which information is available prior to this announcement, net debt averaged £1,498 million up £569 million versus £929 million for the same period last year at 2008 exchange rates.

Your Board continues to examine ways of deploying its EBITDA of almost £1.1 billion (over $2 billion) and substantial cash flow of over £800 million or almost $1.6 billion per annum to enhance share owner value. As necessary capital expenditure, spent mainly on information technology and property, is expected to remain approximately equal to the depreciation charge in the long-term, the Company has concentrated on examining potential acquisitions and on returning excess capital to share owners in the form of dividends and/or share buy-backs.

In 2007, in addition to the acquisition of 24/7 Real Media Inc., the Group continued to make small to medium-sized acquisitions and/or investments in high growth geographical or functional areas. The net initial cost of all acquisitions was £579 million in cash, in advertising and media investment management in the United States (including digital), the United Kingdom, Austria, France, Germany (including digital), Hungary, the Netherlands (including digital), Russia, Spain, South Africa, Brazil, Colombia, Australia, China and Japan; in information, insight & consultancy in the United States and the United Kingdom; in public relations & public affairs in the United States; in branding and identity in Ireland and Dubai; in healthcare in the United Kingdom and in direct, internet & interactive in the United States, Canada, Belgium, Germany, South Africa, the Middle East, Brazil, Chile, Mexico, Korea and Singapore.

Consistent with the objective, announced in 2006, of increasing the share buy-back programme to 4-5% of the Group's share capital in 2007 and 2008, 59.19 million ordinary shares, equivalent to 4.7% of the share capital, were purchased at an average price of £7.03 per share and total cost of £415.4 million. Of these shares, 57.19 million were purchased in the market and subsequently cancelled. Such annual rolling share repurchases are believed to have a more significant impact in improving share owner value than sporadic buy-backs.

As noted above, your Board has also decided to increase the final dividend by 20% to 9.13p per share, taking the full year dividend to 13.45p per share.

Developments in 2007 and 2008

Including associates, the Group had over 110,000 full-time people in over 2,000 offices in 106 countries at the year end. It services over 340 of the Fortune Global 500 companies, over one-half of the Nasdaq 100, over 30 of the Fortune e-50, and approximately 610 national or multi-national clients in three or more disciplines. More than 370 clients are served in four disciplines and these clients account for 58% of Group revenues. The Group also works with over 270 clients in six or more countries.

These statistics reflect the increasing opportunities for developing client relationships between activities nationally, internationally and by function. The Group estimates that over 35% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies. New integration mechanisms, sensitive to global and local opportunities, including WPP global client leaders and country managers, continue to be developed. There is an increasing number of major client creative and integration opportunities at a Group level. 2007 saw, for instance, the development of a new agency, in successful competition against all our major competitors, specifically to address the objectives of one high technology client.

Future prospects

Despite the recent financial crisis, the world economy continued to grow in 2007, after the recovery in both 2003 and 2004, driven by the United States, Asia Pacific, Latin America, the Middle East, Russia and the other CIS countries. As a result, your Company has performed again at record levels. In addition, Africa also showed significant signs of growth, no doubt stimulated by Chinese interest and investment and is increasingly becoming a continent of opportunity. The FIFA World Cup in South Africa in 2010 will have a significant impact in focusing further attention on the African continent.

Whilst like-for-like revenues have grown beyond market expectations, like-for-like average headcount has grown less. Following this productivity improvement, the Group's operating margin at post-incentive levels has improved. In addition, given improved levels of operating profit and margin, incentive pools and variable staff costs are now at around the highest levels. This will improve operational gearing and flexibility in 2008 and beyond.

The task of improving property utilisation continues to be a priority with a portfolio of approximately 19 million square feet worldwide. In December 2002, establishment cost as a percentage of revenue was 8.4%, with a goal of reducing this ratio to 7.0% in the medium term. At the end of 2004 the establishment cost to revenue ratio reduced to 7.6% and by December 2005 this ratio improved further to 7.2%, driven by better utilisation and higher revenues. In 2006 and 2007, further improvements were made and this ratio reduced slightly to 6.9%.

As usual, the budgets for 2008 have been prepared on a prudent basis, largely excluding new business, particularly in advertising and media investment management.

They predict improvements in like-for-like revenues at even higher levels than at this time in 2007 (which were around 4.0% to 4.5%), with balanced growth in the first and second half of the year. They also indicate marketing services revenues growing faster than advertising and media investment management. We have only preliminary data for January in 2008 and this shows like-for-like revenues up 5%. On the basis of these data, 2008 should be a better year than 2007, against the views of most economic forecasters, who predict a gloomy 2008.

Despite the severe financial crisis, the ‘real’ economy continues to grow and our clients continue to expand, particularly in the BRICs and the Next Eleven markets, addressing the twin opportunities of geographical expansion and technological change.

However, it seems inevitable that the ‘real’ world will at some point in time be affected by the private equity, sub-prime, insurance monoline, and housing market crises, that we have seen. In our view, this seems more likely to be in 2009, when a slow-down (not a recession) in the United States will be hard to avoid, particularly as a new United States President tries to deal with heavy government spending and twin deficits, and ‘kitchen-sinks’ his or her budgets, in front of a possible eight year “reign”, just as new CEOs tend to do with companies – and there are no mini- or maxi-quadrennial events to stimulate economic activity. The decoupling theories will also be challenged, as China may pause a little, after the stimulation of the Beijing Olympics, and the world continues to catch cold when America sneezes – if not influenza, as it used to be.

2010 may be a different story, however, with the FIFA World Cup in South Africa, the Winter Olympics in Vancouver and the mid-term Congressional elections in the United States, stimulating economic activity

Concerns remain over the Middle East, oil and commodity prices and the twin deficits of the United States economy and inflation, in general. Despite significant increases in prices of raw material inputs, clients, particularly FMCG or packaged goods companies, have been able to pass on cost increases so far in the form of price increases, as inflation quickens. This year’s prospects, therefore, again look good, with worldwide advertising and marketing services spending set to rise by at least 4% and with your company expected to grow in excess of this and therefore increasing share. Although growth in the world economy continues to be led by Asia Pacific, Latin America, Africa and the Middle East, Russia and the other CIS countries, even Western Continental Europe may continue the improvement seen in 2007, where growth in the second half was up significantly.

2008 should also benefit from the build-up to the United States Presidential elections and the Beijing Olympics, which, as a maxi-quadrennial year, should be a very strong one, buoyed by heavy United States political advertising as the multiple candidates slug it out and by the European Football Championships.

In the short-term, growth in advertising and marketing services expenditure may remain in low to medium single digit territory, given the historically low inflationary environment and the fear of inflation growing, concentrating distribution and consequent lack of pricing power. In this climate, procurement pressure continues (but less so in new media) and the significant proportion of fee remuneration dampens revenue growth on cyclical upturns (and moderates on downturns). However, there continues to be significant opportunities in the area of outsourcing clients’ marketing activities, consolidating clients’ budgets and capitalising on competitive weaknesses. In addition, spending amongst the packaged goods, pharmaceutical, oil and energy, government (the government continues to be one of the largest advertisers in the UK market) and price-value retail sectors, which remained relatively resilient in the recession of 2001 and 2002, have been buttressed by increased activity in previously recession-affected sectors like technology, financial services, media and entertainment and telecommunications.

In the long-term, the outlook appears very favourable. Overcapacity of production in most sectors and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications, the continued strength of the United States economy, the need to influence distribution, and the new focus on corporate responsibility issues such as climate change, underpin the need for our clients to continue to differentiate their products and services both tangibly and intangibly. Moreover, the continuing growth of the BRICs (Brazil, Russia, India and China), Next Eleven and other faster-growing geographical markets, will add significant opportunities in Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe – along with the growth of "new-BRICs" such as Vietnam, Pakistan, Indonesia and Bangladesh. Advertising and marketing services expenditure as a proportion of gross national product should resume its growth and burst through the cyclical high established in 2000.

Given these short-term and long-term trends, your Company has three strategic priorities. In the short-term, having weathered the recession, to continue to capitalise on the 2004 to 2007 up-turn and deal with any slow-downs; in the medium-term, to continue to successfully integrate acquired companies; and finally, in the long-term, to continue to develop its businesses in the faster-growing geographical areas of Asia Pacific, Latin America, Africa and the Middle East, and Central and Eastern Europe and in the faster-growing functional areas of marketing services, particularly direct, internet, interactive and market research.

Incentive plans for 2008 will again focus more on operating profit growth than historically, in order to stimulate top-line growth, particularly in information, insight and consultancy, although objectives will continue to include operating margin improvement, improvement in staff costs to revenue ratios and qualitative Group objectives, including co-ordination, talent management and succession planning.

In these circumstances, there is no reason to believe that the Group cannot achieve the revised margin targets set with the announcement of last year's results, to achieve margins of 15.5% in 2008 and 16.0% in 2009. Budgets and incentive targets for 2008 include the operating margin target of 15.5% previously set for 2008. Neither is there any reason why operating margins could not be improved beyond these levels by continuing focus on revenue growth and careful husbandry of costs. Our ultimate objective continues to be to achieve a 19% margin over a period of time and to continue to improve the return on capital employed. We believe we can continue to make the necessary investment in talent and the application of technology, whilst, at the same time, improving operating margins, at around current levels of like-for-like revenue growth.

Increasingly, WPP is concentrating on its mission of the "management of the imagination", and ensuring it is a big company with the heart and mind of a small one. To aid the achievement of this objective and to develop the benefits of membership in the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development. Eleven practice areas which span all our brands have been developed initially in media investment management, healthcare, privatisation, new technologies, new faster growing markets, internal communications, retail, entertainment and media, financial services, hi-tech and telecommunications and corporate responsibility.

Another reason for cautious optimism …

The world continues to be a restless place: nothing stays still for very long; there is a constant thirst for change. And restlessness continues to be good for the marketing communications industry.

Both companies and governments have learnt an important lesson over the last twenty years or so: it's an extremely dangerous and expensive exercise to attempt to impose change on citizens, employees or consumers without first taking them into your confidence. And that, of course, means consulting them, involving them, talking them through the reasons for change and presenting them clearly with its intended benefits. The real costs involved in such communications programmes are minimal; if only because the costs of encountering resistance can be so formidable. Planned communications act as a kind of lubricant – and so help make all organisations more efficient.

From fundamental research right through to consumer advertising, WPP companies are there to help their clients put change into effect as seamlessly as possible. It involves the scrupulous mining of hard data as well as an intuitive understanding of people's aims and apprehensions and how they respond to promise.

And that, in turn, is why you'll find such an extraordinary diversity of talent in WPP companies: statisticians and art directors; product designers and web designers; futurologists and copywriters; experts in everything from fashion to pharmaceuticals.

There are getting on for 100,000 of them, putting their talents at the disposal of our clients. So when, as now, we reveal our gratifying figures for last year, we are very glad indeed to recognise those many thousands of men and women around the world who made those figures possible. We thank them all; and wish them great satisfaction in their future work and all deserved success.

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