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WPP

2006 PRELIMINARY RESULTS

Billings up 13% to $55.5 billion (£30.1 billion)
Reported revenue up almost 10% to $10.9 billion (£5.9 billion)
Like-for-like revenue up 5.4%
Headline operating margin up 0.5 margin points to 14.5%
EBITDA crosses $1.8 billion (£1 billion) for first time
Headline operating profit before interest and tax up almost 14% to $1,583 million (£859 million)
Headline Profit before tax up over 14% to $1,412 million (£766 million)
Profit before tax up over 15% to $1,257 million (£682 million)
Diluted headline earnings per share up almost 17% at 77.4¢ (42.0p)
Final dividend up 20% to 14.03¢ (7.61p) per share

- Billings up 13.0% to $55.556 billion (£30.141 billion).
- Revenue up 9.9% to $10.890 billion (£5.908 billion).
- Like-for-like revenue up 5.4%.
- Second half like-for-like revenue growth accelerates to 5.7% and quarter four to 7.2%.
- Headline operating profits before interest and tax up 13.8% to $1,583.3 million (£859.0 million) from $1,391.2 million (£754.8 million).
- Operating margin up 0.5 margin points to 14.5% from 14.0%.
- Headline profits before tax up 14.5% to $1,412.4 million (£766.3 million) from $1,233.1 million (£669.0 million).
- Profit before tax up 15.2% to $1,257.1 million (£682.0 million) from $1,091.2 million (£592.0 million).
- Diluted headline earnings per share up 16.7% to 77.4¢ (42.0p) from 66.4¢ (36.0p).
- Reported diluted earnings per share up 18.5% to 64.9¢ (35.2p) from 54.7¢ (29.7p).
- Final dividend up 20% to 14.03¢ (7.61p) per share making a total for the year of 20.66¢ (11.21p) up 20% over 2005.
- Average net debt up $237 million (£121 million) to $2,376 million (£1,214 million) from $2,139 million (£1,093 million) (at 2006 exchange rates).
- Estimated net new billings of over $6.411 billion (£3.562 billion).
- Operating margin targets of 15.5% and 16.0% set for 2008 and 2009.
- Target percentage for rolling share-buyback programme increased to 4-5% of share capital for 2007 and 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 2006, the Group's twenty-first year. These record results again reflect the continued steady strength of the world economy positively impacting almost all disciplines and geographies and the strength of the Group's operating brands and franchise.

Billings were up 13.0% at around $55 billion (£30.141 billion).

Reportable revenue was up 9.9% to $10.890 billion (£5.908 billion). Revenue, including 100% of associates, is estimated to total over $12.921 billion (£7.010 billion). On a constant currency basis, revenue was up 10.9% and gross margin up 10.3%. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were up 5.4%. On the same basis, gross margin was up 5.7%. Like-for-like revenues were up 5.0% in the first half of 2006 and up 5.7% in the second half, continuing the strong organic growth of 5.5% in 2005, with the fourth quarter of 2006, accelerating to 7.2%. The fourth quarter was the Company's first $3 billion revenue quarter.

Headline earnings before interest, depreciation and amortisation ("EBITDA") was up 14.2% to $1.847 billion (£1.002 billion) and up 16.0% in constant currencies. Headline operating profit was up 13.8% to $1,583 million (£859 million) and up 15.7% 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 9.3% and by 10.1% in constant currency. Like-for-like total operating and direct costs rose 4.3%. Reported staff costs, excluding incentives (which includes the cost of share-based compensation), were up 9.1%. Incentive payments (including the cost of share-based compensation) totalled $455.1 million (£246.9 million) ($419.5 million (£227.6 million) in 2005), an increase of 8.4%, which represents 23.1% (24.0% in 2005) of headline operating profit before bonuses, taxes and income from associates. Before these incentive payments, operating margins increased by 0.4 margin points to 18.7% from 18.3%. On a reported basis, the Group's staff cost to revenue ratio improved 0.5 margin points to 58.8% compared with 59.3% in 2005.

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. 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 further. 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%.

The number of people in the Group averaged 77,686 against 70,936 in 2005, an increase of 9.5%. On a like-for-like basis, average headcount was up to 77,686 from 74,971, an increase of 3.6%. At the end of 2006, staff numbers were 79,352 compared with 76,532 at the end of 2005 on a like-for-like basis, an increase of 3.7%.

Net finance costs (excluding the revaluation of financial instruments) were $170.9 million (£92.7 million) up from $158.1 million (£85.8 million) last year, an increase of $12.7 million (£6.9 million), largely reflecting higher interest rates, offset by the impact of improved liquidity as a result of a reduction in average working capital.

Headline operating profit or profit pre-goodwill impairment, amortisation of acquired intangibles, interest, tax and investment gains and write-downs was up 13.8% to $1,583.3 million (£859.0 million) from $1,391.2 million (£754.8 million) and up 15.7% in constant currencies. Reported profit before interest and tax was up 14.0% to $1,442.7 million (£782.7 million) from $1,265.7 million (£686.7 million) and up 15.9% 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 14.5% to $1,412.4 million (£766.3 million) from $1,233.1 million (£669.0 million) and up 16.8% in constant currencies. Reported headline operating margin (including income from associates) increased 0.5 margin points to a record 14.5% from 14.0%, in line with the revised target set in February 2006.

Reported profit before tax rose by 15.2% to $1,257.1 million (£682.0 million), and by 17.6% in constant currencies.

The Group's tax rate on headline profits was 26.0%, a reduction of 3.0 percentage points over 2005. This reflects the continuing positive impact of the Group's tax planning initiatives, particularly in relation to Grey which had a tax rate on acquisition in excess of 45%.

Diluted headline earnings per share were up 16.7% at 77.4¢ (42.0p). In constant currency, earnings per share on the same basis were up 18.9%. Diluted earnings per share rose by 18.5% to 64.9¢ (35.2p) and by 21.0% in constant currencies.

The Board recommends an increase of 20% in the final dividend to 14.03¢ (7.61p) per share, making a total of 20.66¢ (11.21p) per share for 2006, a 20% increase over 2005. The record date for this dividend is 8 June 2007, payable on 9 July 2007. The dividend paid in 2006 is over four times covered by headline earnings.

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

Review of operations

The Group's financial performance in the year more than mirrored the continuing steady strength in economic conditions across the globe, with even the weakest geographical region, Western Europe, picking up in the second half.

2006, a mid-year of the quadrennial 2005-2008 cycle, was strong, to some extent reflecting the positive impact of events such as the winter Olympics in Turin, the FIFA World Cup in Germany and the mid-term congressionals in the United States. 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.

2006 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 addition, in 2006, our narrowly defined internet-related revenue was almost $1 billion or over 9% of our worldwide reported revenue. This is more than the 6-7% 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 2006 as well as proportions of operating profits:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 06/05	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 06/05
North America	39.1	10.3	45.5	4.6
United Kingdom	14.3	6.0	11.1	1.8 [1]
Continental Europe	25.5	9.0	22.2	5.1
Asia Pacific, Latin America, Africa & the Middle East	21.1	18.3	21.2	9.6
Total Group	100.0	10.9	100.0	5.4

[1] Gross margin up 3.3%

The United States continues to surprise positively, with like-for-like growth of 4.6%, up slightly on the first half. Latin America remained one of the fastest growing regions, as it was in 2004 and 2005. Asia Pacific remained strong across the region, with Mainland China and India fastest growing, with like-for-like growth rates of 23% and 19% respectively. Western Continental Europe, although relatively more difficult, improved slightly in the second half. The United Kingdom was stronger in the latter half of the year, reflecting some improvement in the media economy, particularly in the fourth quarter. As seen in the first half, rates of growth in Europe continue to be two-paced, with Western Continental Europe remaining 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 standout growth market, although the United Kingdom, France, Germany and Italy all began to show some renewed signs of life.

Estimated net new billings of $6.411 billion (£3.562 billion) were won last year, reflecting in part strong media investment management new business. The Group was ranked second in the two major new business surveys for 2006.

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 2006 (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 % +/(-) 06/05	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 06/05
Advertising, Media Investment Management	47.5	8.5	51.6	4.3
Information, Insight & Consultancy	15.1	11.2	11.5	4.1[1]
Public Relations & Public Affairs	10.1	12.4	10.4	5.9
Branding & Identity, Healthcare & Specialist Communications	27.3	14.6	26.5	7.8
Total Group	100.0	10.9	100.0	5.4

[1] Gross margin up 6.1%

Media investment management continued to show the strongest growth of all our communications services sectors, along with direct, internet and interactive and specialist communications. Direct and digitally-related activities now account for over 20% of the Group's revenues, which are running at the rate of over $11 billion per annum. Brand advertising, particularly in the new faster growing markets, along with information, insight & consultancy and branding & identity, healthcare and specialist communications, show consistent growth. Public relations and public affairs also continues to show significant improvement over last year, following a strong year in 2005. 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 Second Life. Media investment management and information, insight & consultancy combined, grew by 10% in the year on a like-for-like basis, well ahead of independent competitors.

Advertising and Media Investment Management

In constant currencies, advertising and media investment management revenue grew by over 8%. Like-for-like revenue growth was over 4%. The combined operating margin of this sector is almost 16%.

In 2006, Ogilvy & Mather Worldwide generated estimated net new billings of $336 million (£187 million), JWT $279 million (£155 million), Y&R Advertising $200 million (£111million) and Grey Worldwide $235 million (£130 million).

Also in 2006, GroupM, the Group's media investment management company, which includes MindShare, Mediaedge:cia, MediaCom and MAXUS generated estimated net new billings of $4.361 billion (£2.423 billion).

The Group was ranked first and second respectively in the Gunn Report awards rankings for media and creative in 2006.

Information, Insight and Consultancy

On a constant currency basis information, insight and consultancy revenues grew over 11%, with like-for-like revenues up over 4%. Gross margin grew by over 6% on a like-for-like basis. Overall margins improved by 0.9 margin points to 11.1%.

Strong performances were recorded by Millward Brown (Millward Brown, Greenfield Consulting Group and Dynamic Logic in the United States, IMS in Ireland, MFR in France, Germany, Hungary, Turkey, Impact in South Africa, ACSR in China, Japan, Korea, Mexico, Brazil and Colombia); BMRB International in the United Kingdom, KMR Group; Research International (in Belgium, Germany, Spain, SIFO in Sweden Poland, South Africa, Mexico, China, Malaysia, Indonesia, Singapore and Australia); Center Partners and Ziment in the United States; IMRB in India; Lightspeed Research in the United States and the United Kingdom; Icon Added Value in Germany, South Africa and China; Management Ventures and Cannondale Associates in the United States, BPRI in the United Kingdom and Glendinning in the United States and 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 almost 6%. Particularly strong were Ogilvy Public Relations Worldwide, Hill & Knowlton, Burson-Marsteller, Cohn & Wolfe, Finsbury and Buchanan.

Operating margins continued to improve and are now over 15.0%, an improvement of 1.1 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 almost 8%. Operating margins were up 0.6 margin points. The Group's healthcare and 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, Germany, Spain, Dubai, Japan, Greater China and Australia; Enterprise IG in the United States, the United Kingdom, France and Brindfors in Sweden; Fitch in Phoenix and Columbus in the United States, the United Kingdom and Qatar.

- in healthcare – Sudler & Hennessey in New York and HealthAnswers Education in the United States, Transart in the United Kingdom, Germany, Italy, Sydney in Australia and India; Grey Healthcare Group in the United States, the United Kingdom, France and Germany; in Ogilvy Healthworld in the United States, Canada, France, Italy and the Netherlands, Mexico and Australia.

- in promotion and direct marketing – OgilvyOne (in New York, Minneapolis, San Francisco, Leopard and Neo@Ogilvy in the United States, Canada, Germany, France, the Netherlands, Portugal, Italy, Brazil, Argentina, Malaysia, Singapore, Greater China, India and Korea); 141 Worldwide (in Boomerang in the United States, the United Kingdom, Chile, Japan, Malaysia and the Philippines); Wunderman (in Seattle, RTC, KBM, Fortelligent, Studiocom and ZAAZ in the United States, Canada, Burrows and Good Technology in the United Kingdom, Greece, South Africa, Argentina, Chile and Brazil); RMG Connect (in Canada, France, Italy, Spain, Germany, Brazil, Mexico, India and Singapore); G2 (in the United States, MDS in the United Kingdom, France, Denmark, Sweden, Brazil, Argentina, Colombia and Korea).

- in specialist marketing resources – VML, Bridge, MJM, Pace and The Food Group in the United States, EWA, the Forward Group, Mando, BDGworkfutures, Dovetail and Headcount in the United Kingdom and Global Sportnet in Germany.

Manufacturing

Revenues and profits at the Group's manufacturing division were down in 2006.

Balance sheet and cash flow

The unaudited preliminary Group consolidated balance sheet as at 31 December 2006 is attached in Appendix I. As at 31 December 2006, the Group's net debt increased slightly to $1,595 million (£815 million) compared with $1,573 million (£804 million) at 31 December 2005.

Net debt averaged $2,376 million (£1,214 million) in 2006, flat against 2005 (up $237 million (£121 million) at 2006 exchange rates). These net debt figures compare with a current equity market capitalisation of approximately $18.6 billion (£9.5 billion), giving a total enterprise value of approximately $20.5 billion (£10.5 billion), market values which lead the industry.

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2006, operating profit before goodwill impairment, amortisation of acquired intangible assets and charges for non-cash based incentive plans was $1,646 million (£893 million), capital expenditure $341 million (£185 million), depreciation $264 million (£143 million), tax paid $299 million (£162 million), interest and similar charges paid $107 million (£58 million) and other net cash inflows of $157 million (£85 million). Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore $1,320 million (£716 million). This free cash flow was partially absorbed by $398 million (£216 million) in net acquisition payments and investments, share repurchases and cancellations of $476 million (£258 million) and dividends of $219 million (£119 million). This resulted in a net inflow of $227 million (£123 million), well in excess of the objective introduced in 2003 of covering outgoings by free cash flow. An unaudited consolidated cash flow statement is included in Appendix I.

In the first seven weeks of 2007, up until 16 February, the last date for which information is available prior to this announcement, net debt averaged $1,669 million (£853 million) down $313 million (£160 million) versus $1,982 million (£1,013 million) for the same period last year at 2007 exchange rates.

Your Board continues to examine ways of deploying its EBITDA of over $1.9 billion (over £1 billion) and substantial cash flow of over $1.3 billion or over £700 million 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 2006, 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 $206 million (£112 million) in cash, in advertising and media investment management in the United States, the United Kingdom, the Netherlands, Germany, South Africa, Israel, China, Singapore, New Zealand and Brazil; in information, insight & consultancy in the United States, Spain, Argentina, Hong Kong and China; in public relations & public affairs in the United States, Canada and India; in branding and identity in India; in healthcare in the United States, the Netherlands, Spain and Switzerland and in direct, internet & interactive in the United States, Germany, China and Korea.

As outlined in the Group's 2006 Interim Announcement, the Group carried out a review of its share repurchase programme earlier in 2006 with the aim of increasing the buy-back of shares to 2-3% of its share capital each year, as compared with 1-2% historically. Consistent with this objective, in 2006, 38.874 million ordinary shares were purchased, equivalent to 3.1% of the share capital, including 5.717 million ordinary shares acquired by the WPP ESOP in connection with restricted stock awards. These shares were acquired at an average price of $12.24 (£6.64) per share and total cost of $475.9 million (£258.2 million). Of these shares, 33.157 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.

Following a further recent review of the Company's capital structure with its financial advisers, your Board has decided to further increase the target percentage for rolling share buy-backs on the open market, from 2-3% of its share capital each year, or approximately $350-550 million (£200-300 million), to 4-5%, or approximately $750-950 million (£400-500 million) in each of 2007 and 2008, when market conditions are appropriate.

As noted above, your Board has also decided to increase the final dividend by 20% to 14.03¢ (7.61p) per share, taking the full year dividend to 20.66¢ (11.21p) per share.

Developments in 2006 and 2007

Including associates, the Group had over 98,000 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 400 national or multi-national clients in three or more disciplines. More than 280 clients are served in four disciplines and these clients account for over 57% of Group revenues. The Group also works with nearly 230 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.

Future prospects

The world economy continued to grow in 2006, 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 at record levels. In addition, Africa also showed significant signs of growth, no doubt stimulated by Chinese interest and investment and is 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 margins at both the pre- and post-incentive levels have improved. In addition, given improved levels of operating profit and margin, incentive pools and variable staff costs are now at record levels. This will improve operational gearing and flexibility in 2007 and beyond.

The task of improving property utilisation continues to be a priority with a portfolio of approximately 18.4 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 further improvements were made and this ratio reduced slightly to 7.1%.

As usual, the budgets for 2007 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 in the range of 4.0-4.5%, 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 2007 and this shows like-for-like revenues up over 4%.

Worldwide economic conditions seem set to continue to show steady growth in 2007, although concerns remain over the Middle East, oil and commodity prices and the twin deficits of the United States economy. This year's prospects, therefore, again look good, with worldwide advertising and marketing services spending set to rise by at least 4% with your company expected to grow at 4-5% 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 the second half of 2006 together with the United Kingdom, where growth in the second half of 2006 was almost double that of the first half.

2007 should also benefit from the build-up to the United States Presidential elections and the Beijing Olympics in 2008, 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 low inflationary environment, concentrating distribution and consequent lack of pricing power. In this climate, procurement pressure continues (but not 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 BRICs (Brazil, Russia, India and China) 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 capitalise on the 2004 to 2006 up-turn; 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 2007 will again focus more on operating profit growth than historically, in order to stimulate top-line growth, 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 targets now being set with the announcement of these record results, to achieve margins of 15.5% in 2008 and 16.0% in 2009. Budgets for 2007 include the operating margin target of 15.0% previously set for 2007. 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.

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. Ten 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 and hi-tech and telecommunications.

<u>And finally, some thoughts on size …</u>

Companies can get very confused. When companies start out, investors and financial commentators often express concern about their lack of scale; about their ability to take on more established competition and survive the inevitable cyclical downturns. It seems that companies can be too small.

Twenty years or so later, when those same companies have prospered, investors and financial commentators often express concern about their size; about their ability to respond with speed to new challenges; about the diminishing share of markets still available to them. It seems that companies can be too big.

That’s why we need to look beneath the figures in this announcement at the reality of how they were derived.

WPP is no single, monolithic entity. WPP has some 100 different companies, each with its own specialist skills, each staffed by its own committed professionals. The biggest of these companies employs 15,174 people; the smallest, 17. They all operate between them in 106 countries.

The figures we report today are the sum of the painstaking work of 98,000 talented individuals working for all of those 100 or so WPP companies and associates around the world. In the course of 2006, they undertook many tens of thousands of totally separate projects: some ongoing and substantial; some providing fast and inventive solutions to immediate problems. And all were won against open and highly respected competition.

That is the reality behind our figures and it gives us great satisfaction to register the fact; and above all, publicly to recognise the individual brains and talents of those many thousands of men and women who made those figures possible. We thank them all for another record year; and wish them every success in the year ahead. It should be another good one.

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