Operating & financial review

Competitive performance

Our Media Investment Management businesses continued to show strong growth, along with direct, internet and interactive (part of Specialist Communications) and Public Relations & 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 & 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.

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 second half of 2007. The Group was ranked first in the major new business surveys for 2007.

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. Nor 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.

Revenue per head[2] £000

	Year	
WPP	07	72.9
	06	76.0
Advertising and Media Investment Management	07	66.9
	06	68.4
Omnicom[1]	07	93.2
	06	96.4
IPG[1]	07	77.0
	06	79.0

Headline PBIT[3] margins %

	Year	
WPP	07	15.0
	06	14.5
Advertising and Media Investment Management	07	16.3
	06	15.8
Omnicom[1]	07	13.5
	06	13.4
IPG[1]	07	5.9
	06	2.8

Notes

1 The figures above for Omnicom and IPG (The Interpublic Group) have been derived from their respective 10-K filings with the SEC. As both these companies report under US GAAP, the above figures should be read as indicative of their financial performance as they are not directly comparable with WPP's IFRS reporting. Additionally, adjustments have been made to conform the reported results of these companies to a presentation that is comparable – as far as the information disclosed in the Company's 10-K filings allows – to that of WPP.

2 Revenue per head has been calculated as reported revenue divided by the average number of employees in the relevant year. For Omnicom and IPG, who do not report average headcount in their 10-K filings, it has been estimated as the average of opening and closing headcount for the year. Additionally, revenue for these US dollar-reporting companies has been converted into sterling using the average exchange rates shown on page 160.

3 The calculation of Headline PBIT is set out in note 31 of the financial statements.

Geographic performance

The US 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%. In the UK, 2% like-for-like growth in the second half was broadly similar to the first half. 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 accounted for over 24% of revenues in 2007, against the target of one-third over the next 5-10 years.

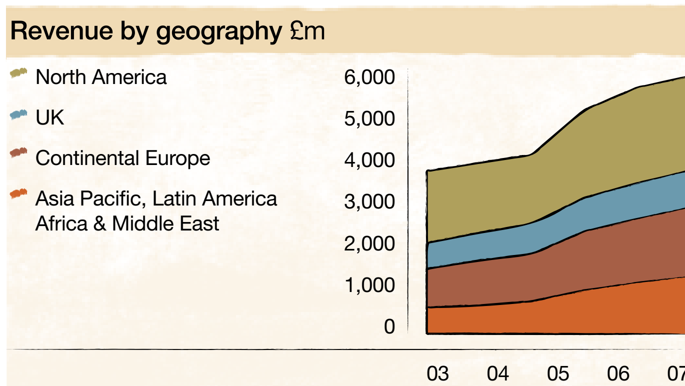
Constant currency[1] revenue growth %

	Year	%
North America	07	7.6
	06	10.3
UK	07	4.0
	06	6.0
Continental Europe	07	7.0
	06	9.0
Asia Pacific, Latin America, Africa & Middle East	07	13.7
	06	18.3

Headline PBIT[2] margins by geography %

	Year	%
North America	07	17.3
	06	17.0
UK	07	12.0
	06	11.4
Continental Europe	07	13.5
	06	12.7
Asia Pacific, Latin America, Africa & Middle East	07	15.0
	06	14.5

Revenue by geography £m



Notes

[1] See definition on page 190.

[2] The calculation of Headline PBIT is set out in note 31 of the financial statements.

Sector performance

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%. On a constant currency basis, the combined operating margin of this sector is now 16.0%.

In 2007, Ogilvy & Mather Worldwide, JWT, Y&R Advertising, Grey and United Group 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 & Consultancy

On a constant currency basis Information, Insight & 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 US, Canada, Millward Brown and Dynamic Logic in the UK, 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 UK; Mediafax; Research International (in the UK, Italy, SIFO in Norway, South Africa, Mexico, New Zealand, Hong Kong, Malaysia, Singapore and Thailand); Ziment in the US and All Global in the UK; IMRB in India; Lightspeed Research in the UK; Mattson Jack in the US, Icon Added Value in Germany, Spain, Japan; RMS Instore in the UK.

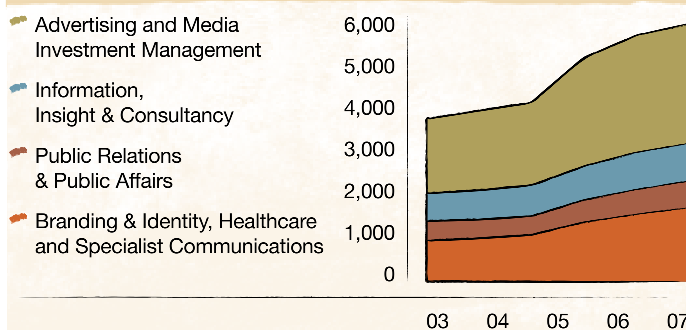
Constant currency[1] revenue by growth %

Sector	Year	%
Advertising and Media Investment Management	07	5.1
	06	8.5
Information, Insight & Consultancy	07	4.5
	06	11.2
Public Relations & Public Affairs	07	12.6
	06	12.4
Branding & Identity, Healthcare and Specialist Communications	07	14.1
	06	14.6

Headline PBIT[2] margins by sector %

Sector	Year	%
Advertising and Media Investment Management	07	16.3
	06	15.8
Information, Insight & Consultancy	07	11.5
	06	11.1
Public Relations & Public Affairs	07	16.6
	06	15.0
Branding & Identity, Healthcare and Specialist Communications	07	14.2
	06	14.1

Revenue by sector £m



Notes

[1] See definition on page 190.

[2] The calculation of Headline PBIT is set out in note 31 of the financial statements.

Public Relations & Public Affairs

Public Relations & 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 US.

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

Branding & Identity, Healthcare and Specialist Communications

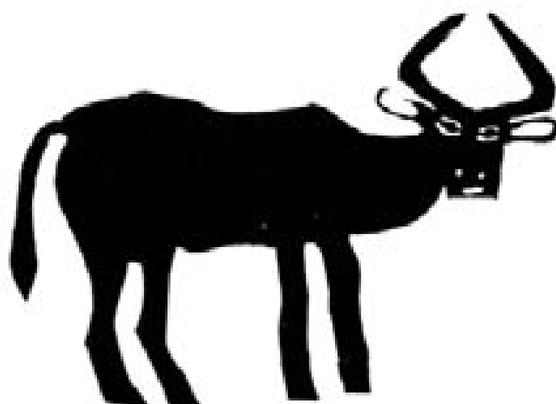
The Group's Branding & Identity, Healthcare and Specialist Communications revenues rose by over 14%. Like-for-like revenues rose by over 6%. Operating margins were down slightly by 0.2 margin points. The Group's direct, internet and interactive businesses showed particularly strong revenue growth.

Several companies performed particularly well:

- in Branding & Identity – Landor Associates in New York and Chicago in the US, the UK, France, Germany, Italy, Dubai, Hong Kong and Australia; The Brand Union (formerly Enterprise IG) in the US, France, Germany, Ireland, Spain, South Africa, China, Hong Kong, Japan, Singapore and Ray & Keshavan in India; Addison and The Partners in the UK; FITCH in the UK, Peclers in France, Norway and Dubai.
- in Healthcare Communications – Sudler & Hennessey in the UK, 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 US; WG Consulting and Grey Healthcare in the UK, Australia and Japan; Ogilvy Healthworld in the US, Canada, the UK, France, the Netherlands, Spain, Switzerland and Turkey.
- in promotion and direct marketing – OgilvyOne (Global Strategies), Eicoff, The Lacek Group, Leopard, San Francisco and Neo@Ogilvy in the US; Neo@Ogilvy in Canada; Neo@Ogilvy and OgilvyOne in the UK, 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 US and Canada; Burrows, GT and iMpact in the UK, Belgium, Denmark, Germany, the Netherlands, Italy, Switzerland, the Czech Republic; AquaOnline in South Africa, Argentina, Brazil, Mexico, Singapore, Thailand; RMG Connect in the US, Canada, Mexico, Hong Kong, India, Japan and Singapore; G2 in direct and digital and interactive marketing in the US; Joshua in the UK, Germany, Russia, Colombia, Chile, China, Hong Kong, Japan, Korea and Taiwan.
- in Specialist Communications – Bridge, VML and The Geppetto Group in the US; Metro Group, The Farm, Spafax and Headcount in the UK.

Manufacturing

Revenues and profits at Wire & Plastic Products, the original manufacturing company on which WPP was founded and which now accounts for less than 1% of the Group's revenue, were flat.



Review of operations

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 US; and better growth in Spain; and a slower speed in Western Europe excluding Spain.

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 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 approximately 10% for on-line media's share of total advertising spend both in the US and worldwide. The new media continue to build their share of client spending.

Group financial performance

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.

Headline earnings before interest, depreciation and amortisation (Headline EBITDA) rose 7.0% to £1.072 billion and 9.2% in constant currencies. Headline profit before interest and tax 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 was up 6.7% to £817 million from £766 million and up 8.8% in constant currencies.

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 was over four times covered by headline earnings.

Operating margins

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.

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 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%.

Like-for-like performance

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 on page 160 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¢.

Headcount

The number of people in the Group (excluding associates) 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%.

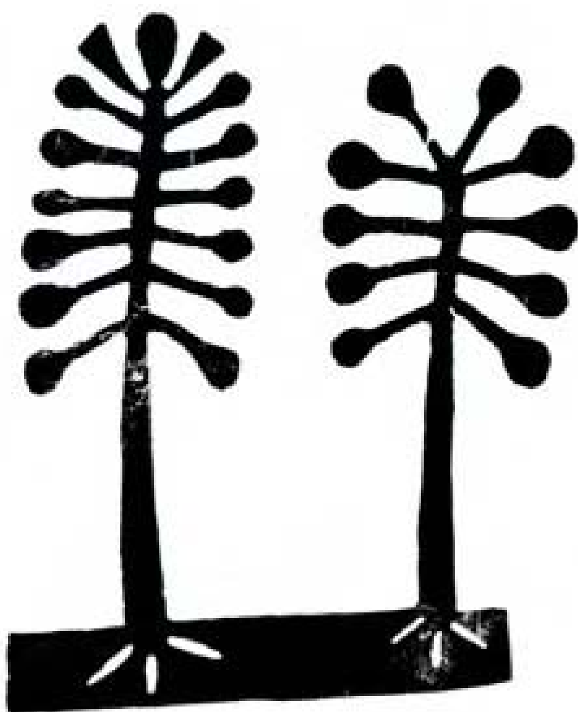
Acquisitions and start-ups

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 US (including digital), the UK, 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 US and the UK; in Public Relations & Public Affairs in the US; in Branding & Identity in Ireland and Dubai; in Healthcare Communications in the UK and in direct, internet and interactive in the US, Canada, Belgium, Germany, South Africa, the Middle East, Brazil, Chile, Mexico, Korea and Singapore.

Parent company initiatives

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, healthcare, new technologies, new faster-growing markets, internal communications, retail, entertainment and media, financial services, hi-tech and telecommunications and corporate responsibility.



Treasury activities

Treasury activity is managed centrally, from the parent company's London, New York and Hong Kong offices, and is principally concerned with the monitoring of working capital, managing external and internal funding requirements and the monitoring and management of financial market risks, in particular interest rate and foreign exchange exposures.

The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of directors and subject to regular review and audit.

The Group's interest rate management policy recognises that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

Its principal borrowing currencies are US dollars, pounds sterling and euros. Borrowings in these currencies represented 96.27% of the Group's gross indebtedness at 31 December 2007 (at $1,811 million, £614 million and €1,048 million) and 97.29% of the Group's average gross debt during the course of 2007 (at $1,859 million, £357 million and €1,152 million). Including the effect of interest rate and cross-currency swaps, 57.90% of the year-end US dollar net debt is at fixed rates averaging 5.64% for an average period of 103 months; and 65.18% of the sterling net debt is at a fixed rate of 6.19% for an average period of 135 months; and 21.44% of the euro net debt is at fixed rates averaging 7.39% for an average period of 51 months.

Other than fixed rate debt, the Group's other fixed rates are achieved principally through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2007 no forward rate agreements or interest rate caps were in place.

These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowings and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis.

Three new financings were completed during the year. A £400 million 6% 10-year bond was issued in April 2007. The proceeds were used to part repay the £450 million 2% convertible bond which matured in April. In November 2007 a €500 million 5.25% eight-year bond was issued and a £200 million 6.375% 13-year bond was issued at the same time.

A $450 million bridging facility was put in place in June 2007 in connection with the acquisition of 24/7 RealMedia, Inc. and terminated in December 2007.

The Company has been actively lengthening the profile of its debt maturities as can be seen from the analysis of the debt maturity on page 17. This shows that during 2008 the €650 million 6% bond and the US$100 million 6.875% bond are due to mature, with the next significant maturity being in 2013. The fall out from the subprime crisis has resulted in difficulties from the credit markets generally, however WPP is taking steps to ensure it is in a position to meet these maturities.

The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained in excess of peak net-borrowing levels and debt maturities are closely monitored.

Targets for average net debt are set on an annual basis and, to assist in meeting this, working capital targets are set for all the Group's major operations.

The Group's significant international operations give rise to an exposure to changes in foreign exchange rates. The Group seeks to mitigate the effect of these structural currency exposures by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars and euros, as these are the predominant currencies of revenues.

The Group's operations conduct the majority of their activities in their own local currency and consequently the Group has no significant transactional foreign exchange exposures. Any significant cross-border trading exposures are hedged by the use of forward foreign-exchange contracts. There were no such material contracts in place at 31 December 2007. No speculative foreign exchange trading is undertaken.

Cash flow and balance sheet

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 an equity market capitalisation at 31 March 2008 of approximately £7.1 billion and average net debt in the first quarter of 2008 of £1.7 billion, giving a total enterprise value of approximately £8.8 billion.

Cash flow strengthened as a result of improved working capital management and cash flow from operations. In 2007, headline operating profit before charges for non-cash share-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

2007 Cash flow £m Free cash flow[1] £698m

Cash In	In
Depreciation	144
Goodwill/acquired intangibles impairment and amortisation	86
Charges for non-cash share-based incentive plans	62
Other	32
Operating profit	805
Cash Out	**Out**
Gains on disposal of investments	3
Net interest	106
Capital expenditure	171
Tax	151

2006 Cash flow £m Free cash flow[1] £716m

Cash In	In
Depreciation	143
Goodwill/acquired intangibles impairment and amortisation	88
Charges for non-cash share-based incentive plans	71
Other	85
Operating profit	742
Cash Out	**Out**
Gains on disposal of investments	8
Net interest	58
Capital expenditure	185
Tax	162

2005 Cash flow £m Free cash flow[1] £561m

Cash In	In
Depreciation	122
Goodwill/acquired intangibles impairment and amortisation	72
Charges for non-cash share-based incentive plans	69
Other	16
Operating profit	653
Cash Out	**Out**
Gains on disposal of investments	4
Net interest	60
Capital expenditure	171
Tax	136

Note
[1] A reconciliation of free cash flow is set out in note 31 of the financial statements.

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.

Your Board continues to examine ways of deploying its EBITDA and substantial cash flow to enhance share owner value. In 2007 headline EBITDA was almost £1.1 billion (over $2 billion) and free cash flow was £698 million (almost $1.4 billion). 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.

Consistent with the objective, announced in 2006, of increasing the share buy-back program 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.

As at 31 December 2007, net assets of £4,095 million compared with £3,918 million in 2006.

Pensions funding

The Group's pension deficit was £133.6 million as at 31 December 2007, compared to £186.6 million as at 31 December 2006. The pension deficit decrease is primarily due to increases in the discount rate in the US, UK and Europe.

Most of the Group's pension scheme assets are held by its schemes in the UK and North America. In the UK, the forecasted weighted average return on assets increased from 5.6% as at 31 December 2006 to 5.8% as at 31 December 2007, and in North America, the forecasted weighted average return decreased from 6.8% to 6.7%, broadly in line with the yields available in both markets.

Contributions to funded schemes are determined in line with local conditions and practices. Certain contributions in respect of unfunded schemes are paid as they fall due.

In 2006 the Group implemented a funding strategy under which our objective is to fully eliminate the deficit for funded schemes by 31 December 2010. Employer contributions in 2007 were £47.0 million (2006: £48.6 million) and are expected to be £39.4 million in 2008.

Future prospects

Including associates, the Group had over 110,000 full-time people in over 2,000 offices in 106 countries at 31 December 2007. It services over 340 of the Fortune Global 500 companies, over one-half of the NASDAQ 100 and over 30 of the Fortune e-50. Over 600 clients are served in three distinct 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.

Despite the recent financial crisis, the world economy continued to grow in 2007, after the recovery in both 2003 and 2004, driven by the US, 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.

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. In the first quarter of 2008 like-for-like revenues were up 4.8%. On the basis of these data, 2008 should be at least as good as 2007.

Despite the severe financial crisis, the 'real' economy continues to grow and our clients continue to expand, particularly in the BRICs and the 'Next 11' 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. This may result in a reduction of marketing budgets and revenues, and/or impair the collection of amounts owing from some clients. In our view, this seems more likely to be in 2009, when a slow-down (not a recession) in the US will be hard to avoid. 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 US, stimulating economic activity.

Concerns remain over the Middle East, oil and commodity prices, the twin deficits of the US 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. Worldwide advertising and marketing services spending is set to rise by at least 4% in 2008, with your company well positioned to take market share. Although growth in the world economy continues to be led by Asia Pacific, Latin America, Africa and the Middle East, Eastern and Central Europe, even Western Continental Europe may show some improvement.

2008 should also benefit from the build-up to the US presidential elections and the Beijing Olympics, which, as a maxi-quadrennial year, should be a good one, buoyed by heavy US 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 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 11' 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. 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, 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.

Paul Richardson
Group finance director

Forward looking statements

In connection with the provisions of the Private Securities Litigation Reform Act of 1995 (the 'Reform Act'), the Company may include forward-looking statements (as defined in the Reform Act) in oral or written public statements issued by or on behalf of the Company. These forward-looking statements may include, among other things, plans, objectives, projections and anticipated future economic performance based on assumptions and the like that are subject to risks and uncertainties. As such, actual results or outcomes may differ materially from those discussed in the forward-looking statements. Important factors which may cause actual results to differ include but are not limited to: the unanticipated loss of a material client or key personnel, delays or reductions in client advertising budgets, shifts in industry rates of compensation, government compliance costs or litigation, natural disasters or acts of terrorism, the Company's exposure to changes in the values of other major currencies (because a substantial portion of its revenues are derived and costs incurred outside of the UK) and the overall level of economic activity in the Company's major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In light of these and other uncertainties, the forward-looking statements included in this document should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved. The Company undertakes no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

* Information in this section should be read in conjunction with and as part of the management report set out in the section headed Directors' report on pages 111 to 127.