Letter to share owners

Dear share owner

WPP's twenty-first year was a model year, our best yet, with key measures exceeding any previous year. Our performance conformed closely to the financial model we have developed, with revenues rising 10% and profits 15%.

Most importantly, total share owner return improved, with your share price rising by almost 10% to 690.5p over the year and dividends rising 20% to 11.21p. Pleasingly, your share price has advanced a further 9% to 757.5p at the time of writing.

Billings were up 13% to £30.1 billion. Revenues were up almost 10% to £5.9 billion. Operating margin was up half a margin point to 14.5%. Headline EBITDA (or headline earnings before interest, taxes, depreciation and amortisation, which is a key metric that private equity firms use for valuing companies) crossed £1 billion for the first time. Headline PBIT – that is profit before goodwill impairment/write-downs, amortisation and impairment of acquired intangible assets, share of exceptional gains of associates, interest, tax and investment gains and write-downs (what a mouthful!) – was up almost 14% to £859 million. Headline profit before tax was up over 14% to £766 million.

Profit before tax was up over 15% to £682 million. Headline diluted earnings per share were up almost 17% to 42.0p and reported diluted earnings per share up over 18% to 35.2p.

These results reflect faster growth in almost all regions – North America, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East – the slower growth area being the UK. Similarly, growth was encouraging across all communications services sectors – Advertising, Media Investment Management, Information, Insight & Consultancy, Public Relations & Public Affairs, Branding & Identity, Healthcare and Specialist Communications. As in 2004 and 2005, we were firing on all cylinders.

These results also reflected continued improvement in productivity, with like-for-like revenues up 5.4% and average headcount on the same basis up 3.6%. Liquidity was steady, with average net debt flat on a reported basis and up only £121 million (at 2006 exchange rates), with a net cash inflow of £123 million. Operating margins improved significantly, too, to record levels – up one half of a margin point after incentives and 0.4 margin points before incentives.

The rest of this letter to you is based on constant currency comparisons, which are more meaningful, given currency movements. On a like-for-like basis revenues were up 5.4% for the year, up 5.0% in the first half and 5.7% in the second half. This appears to have been above the growth in the worldwide market, with the Group increasing market share.

Revenue growth was also consistently strong in successive quarters, on a like-for-like basis up 4.8%, 5.1%, 4.1% in the first three quarters, accelerating to 7.2% in the fourth quarter, the Company's first $3 billion quarter. The momentum was maintained in the first quarter of 2007, with like-for-like revenues up 4.3% and gross margin up 4.5%. Our like-for-like revenue objective for 2007 remains 4-5%, well in line with, or above, forecasts for the advertising and marketing services industry and worldwide GNP growth.

Media Investment Management again leads growth

By discipline, Media Investment Management led the way, together with Healthcare and Specialist Communications, the latter particularly in direct, internet and interactive. Advertising, Information, Insight & Consultancy, and Branding & Identity also registered good performances. Public Relations & Public Affairs again registered its strongest year since 2000, buoyed by the influence of social networking and blogging on the internet. Marketing services rose to over 52% of our revenues in 2006, due to strong growth in Public Relations & Public Affairs and Branding & Identity, Healthcare and Specialist Communications. We are no longer purely an advertising agency.

By geography, Asia Pacific, Africa and the Middle East, Latin America and Central and Eastern Europe led the way. The only laggard was the UK, with even France, Germany and Italy showing some improvement, to some extent due to easier comparatives. As a result, markets outside North America now account for over 60% of our revenues, as compared to 58% in 2003 and 56% in 2002. The influence of the faster-growing markets outside North America is increasing rapidly.