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WPP

2008 PRELIMINARY RESULTS

Billings up over 16% to £36.9 billion
Revenue up almost 21% to £7.5 billion
Constant currency revenue up 9%
Like-for-like revenue up almost 3%
Headline EBITDA up over 20% to £1.3 billion
Headline operating margin 15.0% against target of 15.3%, including TNS
Headline operating profit before interest and tax up over 20% to £1.1 billion
Headline profit before tax up over 18% to £968 million
Diluted headline earnings per share up over 21% at 55.5p
Second interim dividend up 12.6% to 10.28p per share

- Billings up 16.6% to £36.929 billion.
- Reported revenue up 20.9% to £7.477 billion, up 9.0% in constant currency.
- Like-for-like revenue up 2.7%.
- Headline EBITDA up 20.4% to £1.291 billion from £1.072 billion.
- Headline operating profit before interest and tax up 20.5% to £1,118 million from £928 million.
- Headline operating margin of 15.0% against target margin of 15.3% including TNS.
- Headline profit before tax up 18.5% to £968 million from £817 million.
- Profit before tax up 3.8% to £747 million from £719 million.
- Diluted headline earnings per share up 21.2% to 55.5p from 45.8p.
- Reported diluted earnings per share down 1.1% to 37.6p from 38.0p.
- Second interim dividend up 12.6% to 10.28p per share making a total for the year of 15.47p up 15.0% over 2007.
- Average net debt, up £614 million to £2.206 billion from £1.592 billion (at 2008 exchange rates), including the impact of £1.0 billion net cash outlays for acquisitions and earnout payments.
- Estimated net new billings of almost £2.9 billion ($5.6 billion) and ranked first in two of the three leading industry new business surveys.
- TNS integration going well with synergy estimate revised upwards and benefits expected sooner than original forecast.
- Revised operating margin targets of 14.3% and 14.8%, including TNS, for 2009 and 2010.
- As previously announced, rolling share-buyback programme to be reduced in 2009 and 2010 to 1% per annum and dividend growth target to 15% per annum.

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 plc ("WPP") announces the unaudited preliminary results for the year ended 31 December 2008, the Group's twenty-third year and which include the results of Taylor Nelson Sofres plc, "TNS" for two months. 2008 was another record year for the Group, on most dimensions, despite the worsening economic climate.

The full year results for the Group show billings up 16.6% at £36.929 billion, or $67.381 billion.

Reportable revenue was up 20.9% to £7.477 billion. Revenue, including 100% of associates, is estimated to total over £8.9 billion. On a constant currency basis, revenue was up 9.0%, primarily reflecting the strength of the euro and US dollar against the pound sterling. Like-for-like revenues, excluding the impact of acquisitions and on a constant currency basis, were up 2.7%.

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 20.9% and by 9.4% in constant currency. Like-for-like total operating and direct costs rose 2.9%. Reported staff costs, excluding incentives (which includes the cost of share-based compensation), were up 22.5%. Incentive payments (including the cost of share-based compensation) totalled £213.8 million (£230.7 million in 2007), down 7.3%, which represent 16.6% (20.6% in 2007) of headline operating profit before bonuses and income from associates. Before these incentive payments, operating margins remained strong at 17.8%. On a reported basis, the Group's staff cost to revenue ratio improved slightly to 58.2% compared with 58.3% in 2007.

Part of the Group's strategy is to continue to ensure that variable staff costs are a significant proportion of total staff costs and revenue, as this provides flexibility to deal with volatility in revenues and recessions or slow-downs. In 2007, the ratio of variable staff costs to total staff costs fell marginally by 0.3 percentage points to 12.7% and in 2008 to 11.4%. As a proportion of revenue, variable staff costs were 7.4% in 2007 and 6.6% in 2008. These variable staff costs provide a "shock absorber" to operating margins as revenues come under increasing pressure. We estimate that at least half of these variable staff costs can be reduced in the course of a recession. There is, therefore, a potential buffer of 2 - 3 margin points.

The number of people in the Group, excluding associates, averaged 97,438 against 84,848 in 2007, an increase of 14.8%. On a like-for-like basis, average headcount was up to 97,438 from 93,788 an increase of 3.9%. At the end of 2008, staff numbers were 112,262 compared with 110,869 at the end of 2007 on a like-for-like basis, an increase of 1.3%, indicating that recent actions taken had moderated the rate of increase in headcount, which is now more balanced with like-for-like revenue growth.

Headline earnings before interest, tax, depreciation and amortisation ("Headline EBITDA") rose 20.4% to £1.291 billion and 6.6% in constant currencies.

Headline operating profit or profit pre-goodwill impairment, amortisation of acquired intangibles, interest, tax and investment gains and write-downs was up 20.5% to £1,118 million from £928 million and up 6.4% in constant currencies. Headline operating margin was flat at 15.0%, slightly down from the target margin of 15.3% for 2008, on the same basis, including TNS for two months. Reported profit before interest and tax was up 9.0% to £922 million from £846 million.

Net finance costs (excluding the revaluation of financial instruments) were £149.8 million up from £110.7 million last year, largely reflecting higher average net debt as a result of acquisitions, including TNS and higher interest rates.

Reported profit before tax rose by 3.8% to £747 million, reflecting incremental goodwill impairment, amortisation of intangibles and investment write-downs.

The Group's tax rate on headline profit before tax was 25.3%, the same as 2007.

Diluted headline earnings per share were up 21.2% at 55.5p. In constant currency, earnings per share on the same basis were up 5.5%. Diluted earnings per share fell by 1.1% to 37.6p.

The Board recommends a second interim dividend of 10.28p per share**,** an increase of 12.6% over the final dividend for 2007, which together with the first interim dividend of 5.19p per share, makes a total of 15.47p per share for 2008, a 15.0% increase over 2007. The dividend paid in respect of 2008 is 4.0 times covered by headline earnings. The second interim dividend of 10.28p per ordinary share will be paid on 6 July 2009 to holders of ordinary shares in the Company on 5 June 2009.

Income access share arrangements have been put in place by the Company, the mechanics of which mean that the Company will declare a second interim rather than a final dividend. The Board has no plans to announce any additional dividend in respect of the year ended 31 December 2008. Share owners who hold more than 100,000 ordinary shares and who wish to receive their dividend from a United Kingdom source must make an election. Share owners who held 100,000 or fewer WPP ordinary shares on the date of admission of the Company's shares to the London Stock Exchange, or (if later) on the first dividend record date after they became share owners in the company, will be automatically deemed to have elected to receive a United Kingdom-sourced dividend. All elections remain in force indefinitely unless revoked. Unless share owners have made, or are deemed to have made, an election under the Dividend Access Plan, their dividend will be paid from an Irish source and be taxed accordingly.

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

As a number of our competitors report in US dollars and inter-currency comparisons are difficult to make, Appendix 2 shows WPP's preliminary results in reportable US dollars. This shows that US dollar reportable revenues were up 9.7% to $13.6 billion, headline profits were up 6.4% to $1.984 billion and diluted headline earnings per share up 5.6% to 97.8¢.

<u>Review of operations</u>

2008 was largely a year of two contrasting halves. A strong first half, where organic revenues grew more than 4%, in comparison to 2007's overall 5% (although second quarter revenue growth wobbled a little), and a weaker second half with slowing organic growth of over 1%, as the impact of the sub-prime and insurance monoline crises, that started towards the end of 2007, was intensified by the collapse, emergency acquisition and restructuring of financial institutions in most parts of the world. The Group's like-for-like headcount continued to grow faster than like-for-like revenue growth in the first half and third quarter, although this did not have a significant negative impact on achieving the Group's operating margin target of 15.5% (ex-TNS) and 15.3% (including TNS), until the "Beijing bounce" anticipated in the Group's budget and reforecasts for the third quarter of 2008 failed to materialise. In the fourth quarter, better than the latest forecast revenue growth (and better than some competitors) and decisive action taken to reduce the like-for-like growth in headcount, improved relative performance. The average like-for-like headcount growth for the year of 3.9%, contrasted sharply with the year end like-for-like headcount growth of 1.3%, as headcount fell through a mixture of non-replacement, the attrition rate and increased severance.

Although the UEFA football championship, the Beijing Olympics and the US Presidential Election had the usual positive maxi-quadrennial effect on client spending, worldwide advertising and marketing expenditures only rose about 2-3% in the year.

Despite the overall slow-down in the industry growth rate, three engines of relative growth remained. Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe, iconically represented by the BRICs and the Next 11 markets (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam), continued to grow faster and now represent almost 27% of the Group's approximately $15 billion pro-forma revenue. As did new media and the application of technology in the form of internet, PC, mobile, video content and social networks, which now account for almost 25% of Group revenues. And finally, as did consumer insight and information, insight and consultancy, which now account for almost 27% of Group revenues, on a proforma basis.

<u>Revenue and operating profit by region</u>

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 2008 as well as proportions of operating profits:

Region	Revenue as a % of Total Group	Revenue growth % +/(-) 08/07	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 08/07
North America	35.5	4.6	39.9	-0.3
United Kingdom	13.9	7.2	12.2	2.2
Continental Europe	26.7	9.6	25.3	2.3
Asia Pacific, Latin America, Africa & the Middle East [1]	23.9	16.9	22.6	8.4
Total Group	100.0	9.0	100.0	2.7

[1] 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 27.0% and Continental Europe falls to 23.6%.

Asia Pacific, Latin America, Africa and the Middle East continued to be the fastest growing region, with Africa and the Middle East being the fastest growing sub-region. Asia Pacific remained strong across the region, with mainland China up almost 9% and India up 21%, although Japan and Australia were weaker. Continental Europe and the United Kingdom, although suffering from the deterioration in economic conditions, both grew over 2% like-for-like, with Central and Eastern Europe buoying Continental Europe's overall growth. In 2008, Continental Europe remained two-paced, with Western Continental Europe softer and Central and Eastern Europe, Russia and the other CIS countries, in particular, more buoyant. This remained the case through the end of the year. Of the big five Western European markets, Spain and Italy were weakest, France and Germany were stable and the United Kingdom was stronger. North America was the weakest region with like-for-like growth almost flat, although revenues in the fourth quarter were stronger than forecast. There were conflicting trends in North America as, on the one hand, smaller businesses may be more rapidly affected by the recession and, on the other hand, FMCG companies may be maintaining their brand investment spending, even in more difficult times.

Estimated net new billings of £2.9 billion ($5.6 billion) were won last year, reflecting a consistently high level of wins throughout the year. The Group was ranked first in two of the three major industry new business surveys in 2008 and was, therefore, the leading group overall in new business acquisition, excluding re-appointments, as is the industry convention.

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 2008 (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 % +/(-) 08/07	Operating profit as a % of Total Group	Like-for-Like Revenue growth % +/(-) 08/07
Advertising, Media Investment Management	44.4	4.4	52.1	3.6
Information, Insight & Consultancy	17.1	27.8	12.8	3.0
Public Relations & Public Affairs	10.2	6.9	11.4	4.9
Branding & Identity, Healthcare & Specialist Communications	28.3	7.6	23.7	0.3
Total Group	100.0	9.0	100.0	2.7

Public relations and public affairs was the fastest growing communications services sector on a like-for-like basis. New technologies and new media have, once again, demonstrated the power of editorial publicity through fast-growing new applications such as MySpace, YouTube, Facebook, Flickr and Wikipedia, along with the risks and difficulties of making money on social networking sites through advertising, as even experts like Facebook have found on two occasions. In addition, public relations and public affairs have benefitted from the impact of polling techniques, which have provided a more scientific basis for the industry. Advertising and media investment management also grew above average in 2008 and this communications services sector was strengthened particularly by media investment management, which grew at almost 9%. Information, insight and consultancy continued to show resilience in difficult economic conditions, growing above the average. This part of the industry certainly seems to have a lower ‘beta’, growing less rapidly in the upturn and more steadily in the downturn. Branding and identity, healthcare and specialist communications was the slowest growing segment of our business as the significant growth in direct, digital and interactive services was overpowered by slower growth in healthcare and specialist communications. The specialist communications segment of our business, includes a number of smaller companies, largely in the United States and Western Europe, which have particularly felt the impact of the recent slow-down and recession.

Advertising and Media Investment Management

In constant currencies, advertising and media investment management revenue grew by 4.4%. Like-for-like revenue growth was 3.6%. The combined operating margin of this sector rose by over 1 margin point.

In 2008, Ogilvy & Mather Worldwide, JWT, Y&R Advertising, Grey and United Red Cell generated estimated net new billings of £865 million ($1.686 billion).

Also in 2008, GroupM, the Group's media investment management company, which includes Mindshare, Mediaedge:cia, MediaCom and MAXUS generated estimated net new billings of £1.261 billion ($2.459 billion).

Information, Insight and Consultancy

On a constant currency basis, information, insight and consultancy revenues grew 27.8%, largely as a result of the acquisition of TNS, with like-for-like revenues up 3.0%. Gross margin grew by 2.9% on a like-for-like basis. Overall reported margins fell by 0.2 margin points to 11.3%.

Strong performances were recorded by Millward Brown - MaPS and Dynamic Logic in the United States, Canada, Millward Brown and Sadek Wynberg in the United Kingdom, Germany, Hungary, Spain, Switzerland, Turkey, Brazil, Mexico, ACSR in China, Firefly in Thailand, Hong Kong and the Philippines; Research International in the United Kingdom, France, Poland, Kenya, Mexico, Australia, New Zealand, Indonesia, Malaysia and Thailand; IMRB in India; Lightspeed Research in the United Kingdom, the United States and Singapore; Japan Kantar Research; The Futures Company and Kantar HeadlightVision; Cheskin Added Value in the United States, Oracle Added Value in China and Hong Kong; Management Ventures in the United States; BPRI in the United Kingdom; Glendinning in the United States, France, South Africa, Australia and Thailand; Cannondale Associates in the United States; TNS Worldpanel, iTRAM and Custom worldwide.

Public Relations and Public Affairs

Public relations and public affairs continued its strong growth with constant currency revenue up 6.9% and like-for-like growth of 4.9%. Particularly strong were Hill & Knowlton, Burson-Marsteller, Ogilvy Public Relations Worldwide and Clarion in the United Kingdom.

Overall reported margins for this sector remained flat at 16.6%.

Branding and Identity, Healthcare and Specialist Communications

The Group's branding and identity, healthcare and specialist communications revenues rose by 7.6%. Like-for-like revenues rose marginally. Reported operating margins were down by 1.6 margin points to 12.6%. The Group's direct, internet and interactive businesses showed particularly strong revenue growth.

Several companies performed particularly well:

- in branding and identity – Landor in New York, France, Germany, Dubai, Mexico, China and India; The Brand Union in the United Kingdom, Ireland, Spain, Sweden, Dubai, South Africa, China, Hong Kong and Ray + Keshavan in India; Fitch in India, Malaysia and Singapore; VBAT; Lambie-Nairn; The Partners.

- in healthcare – Sudler & Hennessey - CMD in the United States, France and Germany; ghg - Catalyst Online and Vogel Farina in the United States, Darwin Grey in the United Kingdom and France; CommonHealth in the United States.

- in promotion and direct marketing – OgilvyOne - in Global Strategies, The Lacek Group, Canada, Neo@Ogilvy in Canada, Ireland, Neo@Ogilvy in the United Kingdom, Neo@Ogilvy in Germany, Neo@Ogilvy in Italy, Neo@Ogilvy in Spain, OgilvyOne in the Czech Republic, Poland, Russia, Argentina, Datasearch in Brazil, Mexico, Neo@Ogilvy in India, Lee and Jang in Korea, OgilvyOne and Redworks in Malaysia, Singapore, Thailand, Logic, Redworks and Neo@Ogilvy in Japan; Ogilvy Activation; Wunderman - in Chicago, Irvine, Seattle, RTC, KBM, Fortelligent and ZAAZ in the United States, Burrows and Wunderman London in the United Kingdom, Haehn & Partners and Fact n Fiction in Germany, Kassius in France, Wunderman and Futurecom in Portugal, Wunderman Belgium, Pan Mail in Greece, Aqua Online in South Africa, Wunderman and Action Line in Argentina, Wunderman and Action Line in Brazil, Chile, Australia, China, Japan, Malaysia, Singapore, Taiwan, Korea; G2 - in Direct & Digital Media in New York, Direct & Digital in Los Angeles and Chicago, Sales Promotion, Interactive Marketing in the United States, Data Dynamics in the United Kingdom, Denmark, Netherlands, Spain, Sweden, Argentina, Brazil, Colombia, Australia, China, Malaysia, Vietnam and RAMS in India.

- in specialist communications – The Food Group in the United States, Metro Group, Spafax and The Farm in the United Kingdom.

- in digital – 24/7 Real Media; Schematic in the United States; BLUE in the United Kingdom, China and Singapore; Quasar in India.

<u>Manufacturing</u>

Revenues and profits at the Group's manufacturing division were up slightly in 2008, against the recessionary trend.

<u>Balance sheet and cash flow</u>

The unaudited preliminary Group consolidated balance sheet as at 31 December 2008 is attached in Appendix I. Net debt averaged £2.206 billion in 2008, up £614 million from £1.592 billion in 2007 (at 2008 exchange rates). As at 31 December 2008, the Group's net debt increased to £3.068 billion compared with £1.286 billion at 31 December 2007, reflecting the net acquisition cost of TNS and other smaller acquisitions and earnout payments totalling £1.0 billion, debt acquired on the acquisition of TNS of £578 million, the impact of the weakness in the pound sterling against the Euro and US dollar, which amounted to £449 million, mitigated by lower spending on share repurchases. These net debt figures compare with a current equity market capitalisation of approximately £4.8 billion, giving a total enterprise value of approximately £7.8 billion.

Cash flow strengthened as a result of careful working capital management and cash flow from operations. In 2008, operating profit before goodwill impairment, amortisation of acquired intangible assets and charges for non-cash based incentive plans was £1,131 million, capital expenditure £221 million, depreciation £173 million, tax paid £182 million, interest and similar charges paid £134 million and other net cash inflows of £10 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £777 million. This free cash flow was absorbed by £1,049 million in net acquisition payments and investments, share repurchases and cancellations of £112 million and dividends of £162 million. This resulted in a net outflow of £546 million. An unaudited consolidated cash flow statement is included in Appendix I.

In the first seven weeks of 2009, up until 20 February, the last date for which information is available prior to this announcement, net debt averaged £3.263 billion up £1.441 billion versus £1.822 billion for the same period last year at 2009 exchange rates.

Your Board continues to examine ways of deploying its substantial cash flow of over £1 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.

The cost of the acquisition of TNS was £1.6 billion and was funded principally by debt. The company has previously announced that for two years following this acquisition, the Group's share buy-back programme will be targeted at 1% per annum and dividend growth at 15% per annum, subject to review by the Board. These actions, together with a reduced level of acquisition spend targeted at £100 million per annum, are expected to generate surplus cash and a reduction in the borrowing levels.

In October 2008, the Company successfully completed the acquisition of TNS, a major information, insight and consultancy group, operating in over 80 countries with almost 17,000 people worldwide. TNS is a market leader in Continental Europe with strong positions in the United Kingdom, Asia and the Middle East and is a major supplier of consumer panel, media intelligence and TV and radio audience measurement data. It is competitively strong in key industries, including automotive, technology, healthcare and retail and packaged goods. The combination of TNS and the other companies within Kantar – the Group's information, insight and consultancy business, has created the second largest global insight, information and consultancy group and the fourth largest information services company in the world, after Thomson Reuters, Nielsen and Bloomberg. This combination now provides leading positions in Shopper research and marketing, Media (outside of the US), Healthcare, Communications and Innovation. In a recently announced reorganisation, TNS Custom Research has now been merged with Research International and four specialist research units have been formed – Kantar Media, Kantar Healthcare, Kantar Retail and Kantar Worldpanel. Kantar Operations will consolidate back office operations at Kantar and TNS.

TNS performed well in line with its revenue and profit forecast at the time of its acquisition. Our estimates of synergy benefits are being met and in fact being added to. The cost benefits identified will also be realised sooner than originally anticipated and the cost ratios will be in line with our original projections. Integration has gone well so far and the new organisational structure for the combined Kantar and TNS has been implemented as indicated above.

In addition to the acquisition of TNS, 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 £1,049 million in cash, (including £736 million for TNS), and other than TNS was concentrated in advertising and media investment management in the United States, the United Kingdom, Denmark, France, Italy, the Netherlands, Switzerland, Ukraine, the Middle East, Kenya, Argentina, Brazil, Chile, Guatemala, Australia, New Zealand, China, Singapore and Vietnam; in information, insight & consultancy in the United States, the United Kingdom, Spain, Brazil and India; in public relations and public affairs in the United Kingdom, China, Korea and India; in direct, internet and interactive in the United States, the Czech Republic, Denmark, France, Russia, China, India, Japan and Malaysia; and in branding and identity in the Netherlands.

In 2008, 18.8 million ordinary shares, equivalent to 1.6% of the share capital, were purchased at an average price of £5.96 per share and a total cost of £112.2 million, the same figure as announced in the Group's third quarter trading update. All of these shares were purchased in the market and subsequently cancelled. As the Group was required to withdraw from the buyback market during the TNS bid, which started at the beginning of May, no further shares could have been repurchased until the TNS offer became unconditional on 29 October 2008.

Developments in 2008 and 2009

Including associates, the Group had over 135,000 full-time people in almost 2,400 offices in 107 countries at the year end. It services 345 of the Fortune Global 500 companies, 29 of the Dow Jones 30, 50 of the Nasdaq 100, 33 of the Fortune e-50, and 705 national or multi-national clients in three or more disciplines. 443 clients are served in four disciplines and these clients account for over 58% of Group revenues. The Group also works with over 313 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. The Group continues to be extremely successful in most, if not all, of the integrated marketing competitions that clients are increasingly initiating. These opportunities range from the creation of teams across the Group to the integration of various operating units and to the creation of individually tailored agencies to meet clients' needs. The Group's integration record leads its competitors by a considerable distance.

Future prospects

As the first year of the quadrennial cycle, there were to be no mini- or maxi-quadrenial events in 2009, to boost client spending. 2009 was always likely to be a weaker year but the unprecedented current financial crisis has triggered a vicious recession across the globe. Our budgets for 2009, initially indicated flat like-for-like revenue growth, but revenue out-performance in the fourth quarter of 2008 versus forecast and the prudent addition of further budgeted revenue contingencies, resulted in final budget revenues for 2009, being down 2% like-for-like, with relative decreases in costs. GroupM forecasts that global advertising spending (equivalent to approximately 40% of the Group's revenues) will fall by 4% versus 2% growth in 2008.

The first half is budgeted to be weaker than the annual average, with a relative improvement in the second half, partly due to weaker comparatives in the second half of 2008.

Geographically, there are relatively brighter spots budgeted in Asia Pacific, Latin America and the Middle East, reflecting the continued relative strength of the BIC and Next 11 markets. Central and Eastern Europe, as a whole, remains relatively softer, as Russia is under extreme pressure, exacerbated by the falls in the oil price and the ruble, although we expect Russia to recover quickly, when the oil price does too. The United States and Western Europe remain relatively weaker, with recession biting hardest there and in Southern Europe.

There are similar differences functionally. Media investment management, information, insight and consultancy, public relations and public affairs, healthcare and direct, digital and interactive show relative strength, whilst advertising, branding and identity and specialist communications, remain under the greatest pressure.

Operating margins for 2009 are targeted to be flat at 14.3%, including a full year of TNS, equivalent to the 15.0% achieved in 2008. Operating margin targets have, therefore, been reset at 14.8% for 2010, equivalent to 15.5%, pre-TNS.

Although the economic gloom has heightened recently, with further earnings disappointments, surprise dividend cuts, continued financial restructurings and rights issues, we still believe there will be a recovery of sorts in 2010, partly driven by weak comparatives, as the massive Keynesian fiscal injections, quantitative easings and interest rate reductions take hold. These already approximate to $12 trillion or approximately 20% of worldwide GDP of $64 trillion.

The more interesting question, probably, is how the West, in particular, will emerge from the current crisis and reduce the colossal government deficit needed to fund the early stage of the recovery. There seem to be two possible routes. First, the more prudent and painful – reduce government spending, increase taxes and unemployment and learn to save again. Secondly, inflate our way out of the problem and continue to spend and lend, with significant resultant increases in inflation and long-term interest rates.

Given the politically unpleasant implications of the first route, the second course is more likely. As a result, those countries that are capital rich and have saved - like Brazil, China, India, Japan and eventually, when the oil price rises again, Russia - will benefit even more. And the Group's strategic focus on the BRICs and Next 11, on the new media and on consumer insight will benefit equally.

We have only preliminary revenue and profit data for January and February 2009 and this does show a difference in the trend of revenues against last year, although operating profits were better than budgeted. The first two months of 2008 were, in any event, relatively strong months for like-for-like revenue growth.

In the long-term, the outlook for the advertising and marketing services industry appears 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, 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 – 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 eventually resume its growth, although, in these difficult times we are committed to working with our clients to improve the effectiveness and efficiency of their spending.

Given these short-term and long-term trends, your Company believes it has the correct strategic priorities – new markets, new media and consumer insights.

Incentive plans for 2009 will place increased emphasis on operating margins in conjunction with operating profit growth, although objectives will continue to include improvements in staff costs to revenue ratios and qualitative Group objectives, including co-ordination, talent management and succession planning.

The Group remains committed to its six operating objectives – to continue to raise operating margins to the levels of the best-performing competition; to continue to increase flexibility in the cost structure; to improve total share owner return by maximising the return on investment on the Company’s free cash flow; to continue to enhance the parent company and build unique integrated marketing approaches for clients; to continue to place greater emphasis on revenue growth; and, finally to improve still further the quality of our creative output. On the last objective, pleasing progress was made last year as the Group amassed the second largest points tally at the annual advertising and marketing services festival in Cannes (please see our website, www.wpp.com, for detailed calculations).

Small solutions for big problems

For well over a year now, long before the word recession was officially permitted to re-enter the global economic vocabulary, WPP companies, both singly and in collaboration, have been priming themselves to apply their skills and experience to their clients’ new needs.

There are over 150 published papers on the impact of recessions on marketing. Both the parent company itself and its operating companies have filleted these papers – and indeed have added to them. There are no magic solutions and no great surprises. In essence, the way for marketing companies to survive recessions, and even to emerge more strongly from them, is to do what the best of marketing has always done: be obsessed by the ultimate individual user. Not markets, not consumers, not target groups, not plural anything: the individual.

If there is a characteristic that straddles all our companies, it is a fascination with the human mind and how it responds to different stimuli. We have stressed before in this statement the crucial importance of insight: some new understanding that in turn reveals an opportunity.

It will be the driving purpose of our own talented individuals, in all our operating companies of every discipline, to help our clients identify those opportunities – the opportunities that all recessions, when looked at in retrospect, invariably open up – and seize upon them: individual by individual, one-by-one.

These are the people whose talents were sought and valued by our clients in 2008 and to whom our success is due. We thank them for their skills and their resourcefulness. They will be even more valued, by both their clients and by the board of WPP, in the months to come.

Further information:

Sir Martin Sorrell	)	
Paul Richardson	)	(+44) 20 7408 2204
Feona McEwan	)	

Fran Butera (+1) 212 632 2235

www.wppinvestor.com