

#### **D. Risk Factors**

The Company is subject to a variety of possible risks that could adversely impact its revenues, results of operations or financial condition. Some of these risks relate to the industries in which the Company operates while others are more specific to the Company. The following factors set out potential risks the Company has identified that could adversely affect it. See also the discussion of Forward-Looking Statements preceding Item 1.

**The Company competes for clients in a highly competitive industry. Clients periodically review and change their advertising, marketing and corporate communications services models and relationships, which may reduce market shares and decrease profits.**

The communications services industry is highly competitive and fragmented. The Company's principal competitors are other large multinational communications services companies, as well as regional and national advertising and/or marketing services firms. New participants also include systems integrators, database marketing and modeling companies, telemarketers and internet companies offering technological solutions to marketing and communications issues faced by clients. In the communications services industry, service agreements with clients are generally terminable by the client upon 90 days' notice. As such, clients may move their accounts to another agency on relatively short notice. In many cases, a WPP agency represents a client for only a portion of its advertising or marketing services needs or only in particular geographic areas, thus enabling the client to continually compare the effectiveness of the WPP agency against other agencies' work. Many clients do not permit an agency working for them to represent competing accounts or product lines in the same market. A lesser number of companies will not permit any of the agencies owned by a communications service company to work on competing accounts or product lines in any market. These client conflict policies can and sometimes do prevent WPP's agencies from seeking and winning new clients and assignments. If WPP's agencies are unable to compete effectively in the markets in which they operate, WPP's market share and profits may decrease.

**The Company receives a significant portion of its revenues from a limited number of large clients, and the loss of these clients could adversely impact the Company's prospects, business, financial condition and results of operations.**

A relatively small number of clients contribute a significant percentage of the Company's consolidated revenues. The Company's ten largest clients accounted for approximately 22% of revenues in the year ended 31 December 2006. The Company's clients generally are able to reduce advertising and marketing spending or cancel projects at any time for any reason. There can be no assurance that any of the Company's clients will continue to utilise the Company's services to the same extent, or at all, in the future. A significant reduction in advertising and marketing spending by, or the loss of one or more of, the Company's largest clients, if not replaced by new client accounts or an increase in business from existing clients, would adversely affect the Company's prospects, business, financial condition and results of operations.

**The Company may be unable to collect balances due from any clients that are experiencing financial distress.**

The Group has a large and diverse client base, and at any given time, one or more of our clients may experience financial distress, file for bankruptcy protection or go out of business. If any client with whom we have a substantial amount of business experiences financial difficulty, the Group could be unable to collect accounts receivable on a timely basis, if at all. This may result in significant reductions in services provided by the Group and may have a material adverse effect on our financial position, results of operations and liquidity.

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**The Company's success in attracting and retaining clients is dependent on its ability to retain key personnel.**

The advertising and marketing services industries are highly dependent on the talent, creative abilities and technical skills of the personnel of the service providers and the relationships their personnel have with clients. The Company believes that its operating companies have established reputations in the industry that attract talented personnel. However, the Company, like all service providers, is vulnerable to adverse consequences from the loss of key employees due to competition among providers of advertising and marketing services for talented personnel.

**The Company may be subject to certain regulations that could restrict the Company's activities.**

From time to time, governments, government agencies and industry self-regulatory bodies in the United States, European Union and other countries in which the Company operates have adopted statutes, regulations and rulings that directly or indirectly affect the form, content and scheduling of advertising, public relations and public affairs, and market research, or otherwise affect the activities of the Company and its clients. For further discussion of such regulations, see the discussion in the Government regulation section under Item 4B. Though the Company does not expect any existing or proposed regulations to materially adversely impact the Company's business, the Company is unable to estimate the effect on its future operations of the application of existing statutes or regulations or the extent or nature of future regulatory action.

**The Company may be exposed to liabilities from allegations that certain of its clients' advertising claims may be false or misleading or that its clients' products may be defective.**

The Company may be, or may be joined as, a defendant in litigation brought against its clients by third parties, its clients' competitors, governmental or regulatory authorities or consumers or consumer groups. These actions could involve claims alleging, among other things, that:

- advertising claims made with respect to the Company's clients' products or services are false, deceptive, misleading, libelous, injurious to the public welfare or otherwise offensive;
- the Company's clients' products are defective or injurious and may be harmful to others; or
- marketing, communications or advertising materials created for the Company's clients infringe on the proprietary rights of third parties since client-agency contracts generally provide that the agency agrees to indemnify the client against claims for infringement of intellectual property rights.

The damages, costs, expenses or attorneys' fees arising from any of these claims could have an adverse effect on the Company's prospects, business, results of operations and financial condition to the extent that we are not adequately insured against such risks or indemnified by the Company's clients. In any case, the reputation of the Company's agencies may be negatively affected by such allegations.

**The Company is exposed to the risks of doing business internationally.**

The Company operates in 106 countries throughout the world. The Company's international operations are subject to a number of risks inherent in operating in different countries. These include, but are not limited to risks regarding:

- currency exchange rate fluctuations;
- vague, conflicting or inconsistently applied commercial laws and laws relating to intellectual property;

- restrictions on repatriation of earnings; and
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets.

The occurrence of any of these events or conditions could adversely affect the Company's ability to increase or maintain its operations in various countries and could adversely affect the Company's results of operations and financial condition.

**Currency exchange rate fluctuations could adversely affect the Company's consolidated results of operations.**

The Company's reporting currency is the UK pound sterling. However, the Company's significant international operations give rise to an exposure to changes in foreign exchange rates, since most of its revenues from countries other than the UK are denominated in currencies other than the UK pound sterling, including the US dollar. Changes in exchange rates cause fluctuations in the Company's revenues when measured in UK pounds sterling.

**The Company may have difficulty repatriating the earnings of its subsidiaries.**

Any payment of dividends, distributions, loans or advances to the Company by its subsidiaries could be subject to restrictions on, or taxation of, dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which the Company's subsidiaries operate. If the Company is unable to repatriate the earnings of its subsidiaries it could have an adverse impact on the Company's ability to redeploy earnings in other jurisdictions where they could be used more profitably.

**The Company is subject to recessionary economic cycles.**

The Company's business is affected by recessionary economic cycles. Recessionary economic cycles may adversely affect the businesses of the Company's clients, which can have the effect of reducing the amount of services they purchase for the Company's agencies and thus can materially adversely affect the Company's consolidated results of operations.

**The Company may be unsuccessful in evaluating material risks involved in completed and future acquisitions.**

The Company regularly reviews potential acquisitions of businesses that are complementary to its businesses. As part of the review the Company conducts business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction. Despite the Company's efforts, it may be unsuccessful in ascertaining or evaluating all such risks. As a result, it might not realise the intended advantages of any given acquisition. If the Company fails to realise the expected benefits from one or more acquisitions, the Company's business, results of operations and financial condition could be adversely affected.

**The Company may be unsuccessful in integrating any acquired operations with its existing businesses.**

The Company may experience difficulties in integrating operations acquired from other companies. These difficulties include the diversion of management's attention from other business concerns, the management of physically and culturally distant and diverse entities, and the potential loss of key employees of the acquired operations and the loss or resignation from business due to client conflicts.