

# WPP | 2011 Preliminary Results

- **Billings of almost £45 billion**
- **Revenues and PBT over £10 billion and £1 billion for first time**
- **Operating margin of 14.3% equals pre-Lehman proforma high**
- **Headline profit before interest and tax £1.429 billion up over 16%**
- **Headline profit before tax £1.229 billion up almost 19%**
- **Profit before tax £1.008 billion up over 18%**
- **Headline diluted earnings per share of 67.7p up over 19%**
- **Dividends per share of 24.60p up over 38%**

## Key figures

£ million	2011	Δ reported <sup>1</sup>	Δ constant <sup>2</sup>	% revenues	2010	% revenues
Revenue	10,022	7.4%	8.4%	-	9,331	-
Gross Margin	9,239	7.9%	9.0%	92.2%	8,560	91.7%
Headline EBITDA <sup>3</sup>	1,640	14.0%	15.0%	16.4%	1,439	15.4%
Headline PBIT <sup>4</sup>	1,429	16.3%	17.3%	14.3%	1,229	13.2%
EPS headline diluted <sup>5</sup>	67.7p	19.4%	20.3%	-	56.7p	-
EPS headline diluted including tax credit <sup>6</sup>	75.6p	33.3%	34.6%	-	56.7p	-
Diluted EPS <sup>7</sup>	64.5p	40.5%	42.1%	-	45.9p	-
Dividends per share	24.60p	38.3%	38.3%	-	17.79p	-

## Full Year highlights

- **Billings increased by 4.9%** to £44.792bn, driven by net new billings of £3.225bn
- **Revenue growth of 7.4%**, with like-for-like growth of 5.3%, 3.1% growth from acquisitions and -1.0% from currency
- **Growth in all regions and business sectors**, characterised by particularly strong growth geographically in Asia Pacific and Latin America and functionally in advertising, media investment management and direct, digital and interactive
- **Like-for-like gross margin growth** ahead of revenue growth by 0.6 percentage points at 5.9%, very close to first quarter 2011 revenue forecast
- **Headline EBITDA growth of 14.0%** giving 1.0 margin point improvement with direct costs (+2%) and operating costs (+6%) rising more slowly than revenues
- **Headline PBIT increase of 16.3%** with PBIT margin rising by 1.1 points to equal historic proforma high of 14.3%<sup>8</sup>
- **Gross margin margins**, a more accurate competitive comparator, up 1.1 margin points to 15.5%

<sup>1</sup> Percentage change in reported sterling

<sup>2</sup> Percentage change at constant currency exchange rates

<sup>3</sup> Headline earnings before interest, tax, depreciation and amortisation

<sup>4</sup> Headline profit before interest and tax

<sup>5</sup> Diluted earnings per share based on headline earnings excluding the exceptional release of prior year corporate tax provisions

<sup>6</sup> Diluted earnings per share based on headline earnings including the exceptional release of prior year corporate tax provisions

<sup>7</sup> Diluted earnings per share based on reported earnings

<sup>8</sup> Headline PBIT margin of 15.0% in 2008 adjusted for the full year impact of the acquisition of TNS

- **Headline diluted EPS up 19.4%** and **reported diluted EPS up 40.5%**, with 45.0% higher second interim ordinary dividend of 17.14p and full year dividends of 24.60p per share up 38.3%
- **Average net debt reduction of £193m** (-6%) to £2.811bn reflecting strong cash flow generation
- **Creative excellence recognised** by the first ever award of a Cannes Lion to the most creative Holding Company

## Current trading and outlook

- **January 2012** | Like-for-like revenues up 4% for the month, in line with budget; like-for-like gross margin up slightly more
- **FY 2012 budget** | Like-for-like revenue and gross margin growth of around 4% and headline operating margin target of 14.8% up 0.5 points
- **Dual focus in 2012** | 1. Revenue growth from leading position in faster growing geographic markets and digital, premier parent company creative position, new business, “horizontality” and strategically targeted acquisitions; 2. Continued emphasis on balancing revenue growth with headcount increases and improvement in staff costs/revenue ratio to enhance operating margins
- **Long-term targets reaffirmed** | Above industry revenue growth due to geographically superior position in new markets and functional strength in new media and consumer insight, including data analytics and application of new technology; improvement in staff cost/revenue ratio of 0.3 to 0.6 points p.a. depending on revenue and gross margin growth; operating margin expansion of 0.5 margin points or more; and PBIT growth of 10% to 15% p.a. from margin expansion and from strategically targeted small and medium-sized acquisitions



In this press release not all of the figures and ratios used are readily available from the unaudited preliminary results included in Appendix 1. Where required, details of how these have been arrived at are shown in the Appendices.

## Review of group results

### Revenues

#### Revenue analysis

£ million	2011	Δ reported	Δ constant <sup>9</sup>	Δ LFL <sup>10</sup>	Acquisitions	2010
<b>First half</b>	4,713	6.1%	8.1%	6.1%	2.0%	4,441
<b>Second half</b>	5,309	8.6%	8.6%	4.6%	4.0%	4,890
<b>Full year</b>	10,022	7.4%	8.4%	5.3%	3.1%	9,331

#### Gross margin analysis

£ million	2011	Δ reported	Δ constant <sup>9</sup>	Δ LFL <sup>10</sup>	Acquisitions	2010
<b>First half</b>	4,353	6.7%	8.8%	6.8%	2.0%	4,080
<b>Second half</b>	4,886	9.0%	9.2%	5.1%	4.1%	4,480
<b>Full year</b>	9,239	7.9%	9.0%	5.9%	3.1%	8,560

Billings were up 4.9% at £44.792 billion. Estimated net new business billings of £3.225 billion (\$5.160 billion) were won in the year, up over 7% on last year, placing the Group first or second in all leading net new business tables. The Group continues to benefit from consolidation trends in the industry, winning assignments from existing and new clients. These wins continued into the second half of the year with several very large industry-leading advertising, digital and media assignments, the full benefit of which was seen in Group revenues in late 2011 and will continue in 2012.

Reportable revenue was up 7.4% at £10.022 billion, the first time the Group has exceeded £10 billion. Revenue on a constant currency basis was up 8.4% compared with last year, changes in exchange rates chiefly reflecting the strength of the pound sterling primarily against the US dollar. As a number of our competitors report in US dollars and in euros, appendices 2 and 3 show WPP's Preliminary results in reportable US dollars and euros respectively. This shows that US dollar reportable revenues were up 11.4% to \$16.053 billion, which compares with the \$13.873 billion of our closest competitor and that euro reportable revenues were up 6.1% to €11.554 billion, which compares with €5.816 billion of our nearest European-based competitor.

On a like-for-like basis, which excludes the impact of currency and acquisitions, revenues were up 5.3%, with gross margin up 5.9% or 0.6 percentage points higher. In the fourth quarter, like-for-like revenues were up 4.5%, down slightly on the third quarter, primarily due to stronger comparatives. Over the last two years, on a combined basis, there has been a sequential improvement in like-for-like quarterly revenue growth, with 6.7% for the first quarter, 10.3% in the second, 12.2% for the third and 13.1% for the fourth. This two year combined sequential quarterly growth continues to reflect increased client advertising and promotional spending – with the former tending to grow faster than the latter, which from our point of view is more positive – across most of the Group's major geographic markets and functional sectors despite tougher comparatives. Nonetheless, clients understandably continue to demand increased effectiveness and efficiency, i.e. better value for money.

<sup>9</sup> Percentage change at constant currency exchange rates

<sup>10</sup> Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals

## Operating profitability

Headline EBITDA was up 14.0% to £1.640 billion from £1.439 billion and up 15.0% in constant currencies. Group revenues are more weighted to the second half of the year across all regions and functions and particularly in the faster growing markets of Asia Pacific and Latin America. As a result, the Group's profitability continues to be skewed to the second half of the year. Headline operating profit for 2011 was up 16.3% to £1.429 billion from £1.229 billion and up 17.3% in constant currencies.

Headline operating margins were up 1.1 margin points to 14.3% compared to 13.2% in 2010, equal to the proforma high pre-Lehman and well ahead of the Group's original target of 0.5 margin points and revised target of at least 0.7 margin points. On a like-for-like basis operating margins were also up 1.1 margin points. Headline gross margin margins were up 1.1 margin points to 15.5%, close to the highest reported levels in the industry.

Given the significance of consumer insight revenues to the Group, with none of our direct competitors present in that sector, gross margin and gross margin margins are a more meaningful measure of comparative, competitive revenue growth and margin performance. This is because consumer insight revenues include pass-through costs, principally for data collection, on which no margin is charged and with the growth of the internet, the process of data collection is more efficient.

On a reported basis, operating margins, before all incentives<sup>11</sup>, were 17.6%, up 0.8 margin points, compared with 16.8% last year. The Group's staff cost to revenue ratio, including incentives, increased by 0.3 margin points to 58.6% compared with 58.3% in 2010. Following intentional containment in 2009 and 2010 post-Lehman, the Group continued to increase its investment in human capital in 2011, particularly in the faster growing geographic and functional markets as like-for-like revenues and gross margin increased significantly. However, the Group's more representative staff costs to gross margin ratio remained flat at 63.6% compared with the prior year, as gross margin grew faster than revenues.

## Operating costs

During 2011, the Group continued to reap the benefits of containing operating costs, with improvements across most cost categories, particularly direct, property, commercial and office costs.

Reported operating costs (including direct costs, but excluding goodwill impairment, amortisation of acquired intangibles and investment gains and write-downs), rose by 6.1% and by 7.1% in constant currency. On a like-for-like basis, total operating and direct costs rose 4.2%. Reported staff costs excluding incentives rose by 8.6% and by 9.6% in constant currency. Incentive payments amounted to £338 million or over \$500 million, which was 19.9% of headline operating profit before incentives and income from associates and represented close to maximum achievement of agreed performance objectives. Given the record profit and margin performance in 2011, most of the Group's operating companies achieved record incentive levels – reflecting pay for performance, not failure.

On a like-for-like basis, the average number of people in the Group, excluding associates, in 2011 was 109,971, compared to 105,122 in 2010, an increase of 4.6%. On the same basis, the total number of people in the Group, excluding associates, at 31 December 2011 was 113,615 compared to 108,883 at 31 December 2010, an increase of 4,732 or 4.3%. On the same basis revenues increased 5.3% and gross margin 5.9%. This is yet another demonstration of the fact that

<sup>11</sup> Short and long-term incentives and the cost of share-based incentives

growth creates jobs. In the United Kingdom, alone, 907 people were added on a like-for-like basis - up 9% as revenues and gross margin grew on the same basis by 6.7% and 8.6% respectively. The Group's employer social taxes in the United Kingdom rose 11.6% on the same basis.

### **Interest and taxes**

Net finance costs (excluding the revaluation of financial instruments) were up 2.5% at £199.9 million, compared with £195.1 million in 2010, an increase of £4.8 million, reflecting lower average net debt, offset by higher funding costs.

The tax rate on headline profit before tax was 22.0% (2010 22.0%) and on reported profit before tax was 9.1% (2010 22.4%). The difference is primarily due to the exceptional release of prior year corporate tax provisions following the resolution of a number of open tax matters, together with deferred tax credits in relation to amortisation of acquired intangible assets.

### **Earnings and dividend**

Headline profit before tax was up 18.9% to £1.229 billion from £1.034 billion, or up 20.0% in constant currencies.

Reported profit before tax rose by 18.5%, to over £1 billion for the first time, at £1.008 billion from £851 million. In constant currencies, reported profit before tax rose by 19.6%.

Profits attributable to share owners rose by 43.4% to £840 million from £586 million.

Headline diluted earnings per share rose by 19.4% to 67.7p from 56.7p. In constant currencies, earnings per share on the same basis rose by 20.3%. Headline diluted earnings per share (including the exceptional tax credit), rose by 33.3% to 75.6p and by 34.6% in constant currencies. Reported diluted earnings per share increased 40.5% to 64.5p from 45.9p and by 42.1% in constant currencies.

In line with the statement made with the Group's 2010 Preliminary Results, announcing the intention to raise the dividend pay-out ratio, from around a third to 40%, the Board declares an increase of 45% in the second interim ordinary dividend to 17.14p per share, which together with the first interim dividend of 7.46p per share, makes a total of 24.60p per share for 2011, an overall increase of 38.3%. The record date for this second interim dividend is 8 June 2012, payable on 9 July 2012. This represents a dividend pay-out ratio of 33% on headline diluted earnings per share (including the exceptional tax credit) and 36% on headline diluted earnings per share (excluding the exceptional tax credit). This compares to a pay-out ratio of 31% in 2010. As noted above, the Board's objective remains to increase the dividend pay-out ratio to approximately 40% over time.

Following share owner approval at the Company's General Meeting in 2011, the Board has put in place a Scrip Dividend Scheme which enables share owners to elect to receive new fully paid ordinary shares in the Company instead of cash dividends. This scheme commenced with the second interim dividend for 2010.

The Company continues to operate the Dividend Access Plan, which allows share owners who have elected (or, by virtue of holding 100,000 or fewer shares, are deemed to have elected) to participate in the plan to receive cash dividends from a UK source without being subject to any Irish or UK withholding taxes.

Further details of WPP's financial performance are provided in Appendices 1, 2 and 3.

## Regional review

The pattern of revenue growth differed regionally. The tables below give details of revenue and revenue growth by region for 2011, as well as the proportion of Group revenues and operating profit and operating margin by region;

### Revenue analysis

£ million	2011	Δ reported	Δ constant <sup>12</sup>	Δ LFL <sup>13</sup>	% group	2010	% group
N. America	3,388	2.7%	6.3%	2.9%	33.8%	3,300	35.3%
United Kingdom	1,184	8.8%	8.8%	6.7%*	11.8%	1,088	11.7%
W. Europe	2,505	7.7%	6.3%	2.2%	25.0%	2,325	24.9%
AP, LA, AME, CEE <sup>14</sup>	2,945	12.5%	12.6%	10.5%	29.4%	2,618	28.1%
<b>Total Group</b>	<b>10,022</b>	<b>7.4%</b>	<b>8.4%</b>	<b>5.3%*</b>	<b>100.0%</b>	<b>9,331</b>	<b>100.0%</b>

\* Like-for-like gross margin growth of 8.6% in the UK and 5.9% for the Group

### Operating profit analysis (Headline PBIT)

£ million	2011	% margin	2010	% margin
N. America	526	15.5%	485	14.7%
United Kingdom	165	14.0%	148	13.6%
W. Europe	284	11.3%	221	9.5%
AP, LA, AME, CEE <sup>14</sup>	454	15.4%	375	14.3%
<b>Total Group</b>	<b>1,429</b>	<b>14.3%</b>	<b>1,229</b>	<b>13.2%</b>

**North America** continued to show good growth throughout the year, with constant currency revenues up 6.3%.

The **United Kingdom**, against market trends, showed even stronger growth, with constant currency revenues up almost 9% and gross margin even stronger up almost 11%, accelerating in the second half.

**Western Continental Europe**, although relatively more difficult, grew constant currency revenues by over 6%, partially reflecting acquisition activity. Austria, Germany, Switzerland and Turkey all showed strong like-for-like growth for the year, but France and especially Greece, Portugal and Spain remained affected by the Eurozone debt crisis.

In **Asia Pacific, Latin America, Africa & the Middle East and Central and Eastern Europe**, revenue growth was strongest, up well over 12%, principally driven by Latin America and the **BRICs**<sup>15</sup> and **Next 11**<sup>16</sup> parts of Asia Pacific and the **CIVETS**<sup>17</sup> and the **MIST**<sup>18</sup>. Like-for-like growth was up well over 10%.

**Latin America** showed the strongest growth of all of our sub-regions in the year, with constant currency revenues up over 14% and up over 18% like-for-like. The **Middle East** remained the most challenged sub-region. In **Central and Eastern Europe**, constant currency revenues were up over

<sup>12</sup> Percentage change at constant currency exchange rates

<sup>13</sup> Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals

<sup>14</sup> Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe

<sup>15</sup> Brazil, Russia, India and China

<sup>16</sup> Bangladesh, Egypt, Indonesia, South Korea, Mexico, Nigeria, Pakistan, Philippines, Vietnam and Turkey (the Group has no operations in Iran)

<sup>17</sup> Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa

<sup>18</sup> Mexico, Indonesia, South Korea and Turkey

6% and up almost 6% like-for-like, with strong growth in Russia, Ukraine, Kazakhstan, Poland and Romania but Hungary and the Czech Republic were more challenging. Growth in the **BRICs**, which account for almost \$2 billion of revenue, was over 17%, on a like-for-like basis, with **Next 11** and **CIVETS** up 13% and well over 9% respectively on the same basis. The **MIST** was up almost 14%.

In 2011, over 29% of the Group's revenues came from Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe – over 1.0 percentage point more compared with the previous year and against the Group's strategic objective of 35-40% in the next three to four years.

## Business sector review

The pattern of revenue growth also varied by communications services sector and operating brand. The tables below give details of revenue, revenue growth by communications services sector as well as the proportion of Group revenues and operating profit and operating margin by communications services sector;

### Revenue analysis

£ million	2011	Δ reported	Δ constant <sup>19</sup>	Δ LFL <sup>20</sup>	% group	2010	% group
AMIM <sup>21</sup>	4,157	11.4%	12.2%	7.4%	41.5%	3,733	40.0%
Consumer Insight	2,458	1.1%	1.7%	0.8%*	24.5%	2,430	26.0%
PR & PA <sup>22</sup>	886	4.8%	6.2%	4.6%	8.8%	845	9.1%
BI, HC & SC <sup>23</sup>	2,521	8.5%	10.1%	6.9%	25.2%	2,323	24.9%
<b>Total Group</b>	<b>10,022</b>	<b>7.4%</b>	<b>8.4%</b>	<b>5.3%*</b>	<b>100.0%</b>	<b>9,331</b>	<b>100.0%</b>

\* Like-for-like gross margin growth of 1.9% in Consumer Insight and 5.9% for the Group

### Operating profit analysis (Headline PBIT)

£ million	2011	% margin	2010	% margin
AMIM <sup>21</sup>	668	16.1%	573	15.3%
Consumer Insight	258	10.5%	235	9.7%
PR & PA <sup>22</sup>	143	16.1%	133	15.8%
BI, HC & SC <sup>23</sup>	360	14.3%	288	12.4%
<b>Total Group</b>	<b>1,429</b>	<b>14.3%</b>	<b>1,229</b>	<b>13.2%</b>

In 2011, over 30% of the Group's revenues came from direct, digital and interactive, up over 1.0 percentage point from the previous year.

## Advertising and Media Investment Management

In constant currencies, advertising and media investment management revenues grew by 12.2%, with like-for-like growth of 7.4%. Of the Group's advertising networks, Ogilvy & Mather Worldwide, Grey and United finished the year strongly, with particularly strong growth in the United Kingdom, Latin America and Africa. Growth in the Group's media investment management businesses has been very consistent throughout the year, with constant currency revenues up almost 19% for the year and like-for-like growth up almost 13%. tenthavenue, the "engagement" network focused on out-of-home media, was established towards the end of 2010 and in 2011 showed strong revenue growth, with like-for-like revenues up over 14%. The strong revenue

<sup>19</sup> Percentage change at constant currency exchange rates

<sup>20</sup> Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals

<sup>21</sup> Advertising, Media Investment Management

<sup>22</sup> Public Relations & Public Affairs

<sup>23</sup> Branding and Identity, Healthcare and Specialist Communications

growth across most of the Group's businesses, together with good cost control, resulted in the combined reported operating margin of this sector improving by 0.8 margin points to 16.1%.

In 2011, Ogilvy & Mather Worldwide, JWT, Y&R, Grey and United generated net new business billings of £909 million (\$1.455 billion).

In the same year, GroupM, the Group's media investment management company, which includes Mindshare, MEC, MediaCom, Maxus, GroupM Search and Xaxis, together with tenthavenue, generated net new business billings of £1.587 billion (\$2.539 billion).

### **Consumer Insight**

On a constant currency basis, consumer insight revenues grew 1.7%, with gross margin up 2.2%. On a like-for-like basis revenues were up 0.8% with gross margin growth stronger at 1.9%. Reported operating margins improved 0.8 margin points to 10.5% (reported gross margin margins improved 1.1 margin points to 14.3%) - reflecting the benefit of continued cost focus. As a result, operating profit was up almost 10% to £258 million.

Good performances were recorded by TNS Foresight in the United States, TNS RMS in the United Kingdom, TNS Infratest in Germany, TNS Russia, Kazakhstan, the Middle East, Brazil, India, Indonesia, South Korea, the Philippines and Singapore; by Millward Brown in the United Kingdom, France, Germany, Hungary, the Netherlands, Poland, Turkey, East and West Africa and Impact in Africa, Brazil, Mexico, Peru, Hong Kong, Taiwan, ACSR in China, India, Indonesia, South Korea, the Philippines and Vietnam; by Kantar Media at TGI in the United Kingdom, TRAM in the United States, the United Kingdom, Scandinavia, Russia, Kazakhstan, Estonia, Israel and the Philippines; by Kantar Worldpanel in the United Kingdom, Ireland, France, Argentina, Brazil, Costa Rica, El Salvador, Mexico, South Korea, Malaysia, Philippines, Taiwan, Thailand and Vietnam; by Kantar Health in All Global in the United States, Germany, Egypt and China; by Added Value in the United States, the United Kingdom, France and Hong Kong; by Lightspeed/GMI in the United States, the United Kingdom and Australia; by Kantar Retail at Glendinning in the United States and Red Dot Square in the United Kingdom.

### **Public Relations and Public Affairs**

In constant currencies the Group's public relations and public affairs businesses had another good year with full year growth of 6.2%, with like-for-like revenues up 4.6%. Operating margins rose by 0.3 margin points to 16.1%. Ogilvy Public Relations, Cohn & Wolfe and Hering Schuppener in Germany did particularly well.

### **Branding and Identity, Healthcare and Specialist Communications**

At the Group's branding and identity, healthcare and specialist communications businesses (including direct, digital and interactive) constant currency revenues grew strongly at 10.1% with like-for-like growth of 6.9%. Like-for-like revenue growth slipped slightly in quarter four but remained above 6%. The Group's global direct, digital and interactive agencies showed continuing strong growth, with like-for-like revenues up well over 7% for the year. This sector showed strong margin improvement, with reported operating margins up 1.9 margin points to 14.3%.

Many companies performed well:

- In branding and identity – Landor in Cincinnati, the United Kingdom, Spain, Italy, Dubai, Hong Kong and Singapore; The Brand Union in New York, France, Germany, Spain, Dubai, China and Singapore; FITCH in the United States, Dubai, Qatar, India,



Malaysia and Singapore; VBAT in the Netherlands, Lambie-Nairn and The Partners in the United Kingdom.

- In healthcare – Ogilvy CommonHealth in the United States, the United Kingdom, Germany, Scandinavia, Switzerland, Turkey and Australia; Sudler & Hennessey in New York, the United Kingdom and India; ghg in New York and Kansas City in the United States, ghg London, Darwin Grey and Westaway Gillis in the United Kingdom, France and Australia.
- In promotion, direct and interactive – OgilvyOne in Atlanta, Chicago, Global Strategies, Leopard, OgilvyOne and Redworks West and The Lacek Group in the United States, OgilvyOne Canada, the United Kingdom, France, Germany, Italy, Scandinavia, Switzerland, Argentina, Brazil, Mexico, China, India, Indonesia, Singapore, Taiwan and Thailand; Wunderman in Designkitchen, Detroit, *rctrm* and Blast Radius in the United States, Belgium, Denmark, Finland, France, Italy, Spain, Switzerland, MENACOM in the Middle East, Argentina, Brazil, Chile, Colombia, Mexico, Hong Kong, India, Japan and South Korea; G2 in Chicago, New York and San Francisco in the United States, the United Kingdom, France, Italy, Romania, Russia, Brazil, China, Malaysia and Vietnam; Other companies - Coley Porter Bell, OgilvyAction, Digit and HeathWallace in the United Kingdom, KGM Datadistribution in Sweden.
- In specialist communications – Compas, The Food Group, Pace and MJM in the United States, BDG, the Farm, Hogarth and Metro in the United Kingdom and Prism in the United Kingdom, Germany and Thailand.
- In digital – 24/7 Real Media in the United States, the United Kingdom, Austria, France, Italy, the Netherlands, Spain, Sweden and South Korea; Possible WW in the United States, the United Kingdom, Singapore and Gringo in Brazil; Other companies - Imaginet, Digitaria, Lunchbox, Malone, VML, Blue State Digital and Rockfish in the United States and VML in the United Kingdom.

## Client review

Including associates, the Group currently employs over 158,000 full-time people (up approximately 12,000, from over 146,000 the previous year) in over 2,500 offices in 107 countries. It services 344 of the Fortune Global 500 companies, all 30 of the Dow Jones 30, 63 of the NASDAQ 100, 33 of the Fortune e-50 and 730 national or multi-national clients in three or more disciplines. 472 clients are served in four disciplines and these clients account for almost 57% of Group revenues. This reflects the increasing opportunities for co-ordination and co-operation or “horizontality” between activities both nationally and internationally and at a client and country level. The Group also works with 359 clients in 6 or more countries. The Group estimates that well over 35% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies.

## Cash flow highlights

In 2011, operating profit was £1.192 billion, depreciation and amortisation £384 million, non-cash share-based incentive charges £79 million, net interest paid £178 million, tax paid £248 million, capital expenditure £253 million and other net cash inflows £37 million. Free cash flow available for working capital requirements, debt repayment, acquisitions, share re-purchases and dividends was, therefore, over £1 billion for the first time, at £1.013 billion.

This free cash flow was absorbed by £532 million in net cash acquisition payments and investments (of which £151 million was for earnout payments and loan note redemptions with the balance of £381 million for investments and new acquisition payments net of disposal proceeds), £182 million in share repurchases and £218 million in dividends, a total outflow of £932 million. This resulted in a net cash inflow of £81 million, before any changes in working capital.

A summary of the Group's unaudited cash flow statement and notes as at 31 December 2011 is provided in Appendix 1.

## Acquisitions

In line with the Group's strategic focus on new markets, new media and consumer insight, 24 acquisitions and investments were in new markets, 32 in new media and 8 in consumer insight, including data analytics and the application of technology, with the balance of 7 driven by individual client or agency needs.

Specifically, in 2011, acquisitions and increased equity stakes have been executed in **advertising and media investment management** in the United States, France, Germany, the Netherlands, Bahrain, South Africa, Brazil, Chile, China, India, South Korea and the Philippines; **in consumer insight** in the United States, Ireland, Germany, Poland, Russia, Kenya, Japan and Sri Lanka; **in public relations and public affairs** in the United States, the United Kingdom, South Africa and Singapore; **in direct, digital and interactive** in the United States, the United Kingdom, Austria, Brazil, China, the Philippines and Singapore and **in specialist communications** in the United States and Kenya.

## Balance sheet highlights

Average net debt in 2011 fell by £193 million to £2.811 billion, compared to £3.004 billion in 2010, at 2011 exchange rates. On 31 December 2011 net debt was £2.465 billion, against £1.888 billion on 31 December 2010, an increase of £577 million, reflecting stronger acquisition and share buy-back activity in the latter half of the year.

Your Board continues to examine ways of deploying its EBITDA of £1.6 billion or over \$2.5 billion and substantial free cash flow of over £1 billion or over \$1.6 billion per annum, to enhance share owner value. The Group's current market value of £10.2 billion implies an EBITDA multiple of 6.2 times, on the basis of the full year 2011 results. Including year end net debt of £2.465 billion, the Group's enterprise value to EBITDA multiple is 7.7 times.

As mentioned in the Group's 2010 Preliminary Results Announcement, the average net debt to headline EBITDA ratio at 31 December 2010 had improved to 2.1 times, a year ahead of the schedule outlined at the time of the TNS acquisition in October 2008. Based on the 12 months to 30 June 2011, the average net debt to headline EBITDA fell further to 1.8 times and for the 12 months to 31 December 2011 fell again to 1.7 times, well within the Group's current target range of 1.5 - 2.0 times.

A summary of the Group's unaudited balance sheet and notes as at 31 December 2011 is provided in Appendix 1.

## Capital markets

During November 2011, The Group successfully launched a new \$500 million 10 year fixed rate bond at a coupon of 4.75%. In addition \$281 million of the existing \$650 million 5.875% bonds due in 2014 were exchanged for a further issue of \$312 million of the new 4.75% bonds. This, along

with the replacement of the \$1.65 billion bank facility originally due to expire in 2012, with a new 5 year facility of the same amount, has significantly extended the maturity profile of the Group's borrowings.

## Return of funds to share owners

Following the strong first-half results, your Board raised the dividend by 25%, around 5 percentage points faster than the growth in headline diluted earnings per share, a pay-out ratio in the first half of 33%. For the full year, headline diluted earnings per share (including the exceptional tax credit) rose by 33% and as a result, the second interim dividend has been increased by 45%, bringing the total dividend for the year to 24.60p per share, up 38%, 5 percentage points higher than the growth in headline diluted earnings per share (including the exceptional tax credit) and 19 percentage points higher than the growth in headline diluted earnings per share (excluding the exceptional tax credit). As indicated in the AGM statement in June 2011, the Board's objective remains to increase the dividend pay-out ratio to approximately 40% over time compared to the 2010 ratio of 31%. In 2011, it reached 36% on headline diluted earnings per share (excluding the exceptional tax credit) and 33% on headline diluted earnings per share (including the exceptional tax credit). Dividends paid in respect of 2011 will total over £300 million for the year.

In 2011, 25.9 million shares, or 2.1% of the issued share capital, were purchased at an average price of £7.02 per share, returning a further £182 million to share owners.

## Current trading

January 2012 revenues were in line with budget and on a like-for-like basis were up 4% with gross margin up similarly. All regions and sectors were up, with Asia Pacific and Latin America and advertising and media investment management, public relations and public affairs up the strongest.

## Outlook

### Macroeconomic and industry context

2011, the Group's twenty sixth year, was a record year on virtually whatever measure you care to name. This record performance was achieved in difficult circumstances, particularly in the second half of the year. The lack of strong, co-ordinated political leadership around the Eurozone crisis triggered uncertainty amongst both consumers and corporates across the globe and this was reflected in a slowdown in economic activity in most geographic regions and functional sectors. Despite this, advertising and marketing services expenditures continued to rise and there seem to have been some significant changes, particularly in corporate behaviour, to explain why. In 2009, post-Lehman, all bets were off. Consumers and corporates were focused almost totally on rapidly reducing costs and de-leveraging. In 2010 and 2011, however, the situation seemed to change. The financial world did not, in fact, come to an end as some had predicted. Western based multi-national companies, which today are reputed to be sitting on as much as \$2 trillion net cash with relatively un-leveraged balance sheets, were still fearful of making mistakes but prepared to invest in capacity and behind brands in fast growing markets. At the same time, they were also prepared to invest in brands to maintain or increase market share even in slow growth Western markets, such as the United States and Western Europe. This has the virtue of not increasing fixed costs, although we in the communications business regard brand spending as a fixed investment and not a discretionary cost. This positive double-whammy has clearly benefitted our industry over the last two years.

2012 may well be similar and we may benefit again. Forecasts of worldwide real GDP growth still hover around 2-3% with inflation of 2% giving nominal GDP growth of 4-5%. Advertising as a proportion of GDP should at least remain constant, as it is still at relatively depressed historical levels, particularly in mature markets, post-Lehman and grow at a similar rate to GDP. The three maxi-quadrennial events of 2012, the UEFA Football Championships in Central and Eastern Europe, the Summer Olympics and Paralympics in London and last, but not least, the US Presidential Elections in November should underpin industry growth by 1% alone this year. Both consumers and corporates are likely to continue to be cautious and fearful, but should continue to purchase or invest in brands in both fast and slow growth markets. In addition, although there may not have been the required strong political leadership in the Eurozone, it is just possible that Europe will muddle through the current crisis, without a catastrophic failure, although the Iranian and Middle-Eastern situation poses another threat to global stability and oil prices. Some worry about Chinese growth rates and hard landings, although we see little let-up in Mainland China and believe the worst case is a soft landing, following the strategies laid out in the Twelfth Five Year Plan.

One of the clouds on the horizon, may, however be 2013. There will be no maxi- or mini-quadrennial events in that year. It now seems more likely, that President Obama will be re-elected and will have to confront the intimidating US budget deficit, whilst dealing with a Republican-controlled House of Representatives and Senate. Legislative gridlock may continue at a time when kicking the can down the road may no longer be viable.

### **Financial guidance**

The budgets for 2012 have been prepared on a conservative basis, as usual, reflecting the faster growing geographical markets of Asia Pacific, Latin America, Africa and Central and Eastern Europe and faster growing functional sectors of advertising, media investment management and direct, digital and interactive to some extent moderated by the slower growth in the mature markets of the United States and Western Europe. Our 2012 budgets show the following;

- Like-for-like revenue and gross margin growth of around 4%
- Target operating margin improvement of 0.5 margin points

In 2012, our prime focus will remain on growing revenues and gross margin faster than the industry average, driven by our leading position in the new markets, in new media, in consumer insight, including data analytics and the application of technology, creativity and “horizontality”. At the same time, we will concentrate on meeting our operating margin objectives by managing absolute levels of costs and increasing our flexibility in order to adapt our cost structure to significant market changes. The initiatives taken by the parent company in the areas of human resources, property, procurement, information technology and practice development continue to improve the flexibility of the Group’s cost base. Flexible staff costs (including incentives, freelance and consultants) have returned close to historical highs of around 7% of revenues and continue to position the Group extremely well, if current market conditions change.

The Group continues to improve co-operation and co-ordination among its operating companies in order to add value to our clients’ businesses and our people’s careers, an objective which has been specifically built into short-term incentive plans. “Horizontality” has been accelerated through the appointment of over 30 global client leaders for our major clients, accounting for about one third of total revenues of \$16 billion and country managers in half a dozen test markets. Emphasis has been laid on the areas of media investment management, healthcare, corporate social responsibility, government, new technologies, new markets, retailing, shopper marketing, internal communications, financial services and media and entertainment. The Group continues to



lead the industry, in co-ordinating investment geographically and functionally through parent company initiatives and winning Group pitches.

In the future, our business is, geographically and functionally, well positioned to compete successfully and to deliver on our long-term targets:

- Revenue and gross margin growth greater than the industry average including acquisitions
- Improvement in operating margin of 0.5 margin points or more depending on revenue growth and staff cost to revenue ratio improvement of 0.3 margin points or more
- Annual PBIT growth of 10% to 15% p.a. delivered through revenue growth, margin expansion and acquisitions

## Uses of funds

As capital expenditure remains roughly equivalent to our depreciation charge of £211 million, our focus is on the alternative uses of funds between acquisitions, share buy-backs and dividends. We have increasingly come to the view, that currently, the markets favour consistent increases in dividends and higher maintainable pay-out ratios, along with anti-dilutive buy-backs and, of course, sensibly-priced strategic acquisitions.

### Buy-back strategy

Share buy-backs will continue to be targeted to absorb any share dilution from scrip dividends, issues of options or restricted stock, although the Company does also have considerable free cash flow to take advantage of any anomalies in market values, as it did last year.

### Acquisition strategy

There is a very significant pipeline of reasonably priced small and medium sized potential acquisitions, with the exception of Brazil and India and digital in the United States, where prices seem to have got ahead of themselves because of pressure on competitors to catch up. This is clearly reflected in some of the operational issues that are starting to surface elsewhere, particularly in fast growing markets like China. Transactions will be focused on our strategy of new markets, new media and consumer insight, including data analytics and the application of new technology. Net acquisition spend is currently targeted at around £300 million per annum and we will continue to seize opportunities in line with our strategy to increase the Group's exposure to:

- Faster growing geographic markets and sectors
- Consumer insight, including data analytics and the application of technology

## Last but not least.....

For companies such as ours, the regular acquisition of new business from new clients in open competition carries huge significance. More than any other form of achievement, it hits the headlines. It signals, very publicly, progress and momentum and state-of-the-art professionalism. It works as a kind of compliment to existing clients. And it is a great morale booster for staff. So it is extremely gratifying to be able to report that the Group's 2011 new business performance continued, across disciplines and territories, to be outstanding.

At least as admirable, however, if less publicly recognised, is the ability of our companies to continue to service and satisfy existing clients – over many years and often through times of considerable difficulty. In 2011, an outstanding validation of this was the award of the first Lion at Cannes to any Holding Company for creative excellence. This ability to service and satisfy clients is sometimes referred to as client retention; but that's a seriously misleading term. Client retention



suggests little more than passive custodianship; looking after what you have got and making sure it does not slip away. In truth, of course, to satisfy properly demanding existing clients requires at least as much energy, initiative, enterprise and imagination as any hectic new business presentation – and on top of that, the ability to sustain such service over very long periods of time.

So while we delight in our new business record, and thank and congratulate those thousands of our people who contributed to it, we would like to reserve our last word of gratitude for those many more thousands who continued to prove, day in and day out, the value to their clients of the skills and talents of WPP professionals. It is testing and admirable work that they do, that sometimes goes unrecognised.

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This announcement has been filed at the Company Announcements Office of the London Stock Exchange and is being distributed to all owners of Ordinary shares and American Depository Receipts. Copies are available to the public at the Company's registered office.

The following cautionary statement is included for safe harbour purposes in connection with the Private Securities Litigation Reform Act of 1995 introduced in the United States of America. This announcement may contain forward-looking statements within the meaning of the US federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially including adjustments arising from the annual audit by management and the Company's independent auditors. For further information on factors which could impact the Company and the statements contained herein, please refer to public filings by the Company with the Securities and Exchange Commission. The statements in this announcement should be considered in light of these risks and uncertainties.