FINANCIAL REVIEW

REVIEW OF RESULTS

The financial results for 2019 are based on the Group's continuing operations and the results of Kantar are presented separately as discontinued operations. The 2017 and 2018 reported numbers have been re-presented in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Reported billings were £53.059 billion, down 0.3%, down 1.4% in constant currency and down 1.0% like-for-like.

Reported revenue was up 1.4% at £13.234 billion. Revenue on a constant currency basis was up 0.2% compared with last year, the difference to the reportable number reflecting the weakness of the pound sterling against most currencies, particularly in the first half of the year. On a like-for-like basis, which excludes the impact of currency and acquisitions, revenue was flat.

Reported revenue less pass-through costs was down 0.3%, down 1.5% in constant currency and down 1.6% like-for-like, within the guidance range of -1.5% to -2.0% re-confirmed in October 2019. In the second half, like-for-like revenue was up 0.9%, a significant improvement from the first half of down 0.9%, with North America, the United Kingdom and Western Continental Europe improving, partly offset by Asia Pacific, Latin America, Africa & the Middle East and Central & Eastern Europe which were slower. On the same basis, revenue less pass-through costs in the second half was down 0.7%, a significant improvement over the first half which was down 2.5%, with North America, Western Continental Europe and Asia Pacific, Latin America, Africa & the Middle East and Central & Eastern Europe stronger.

OPERATING PROFITABILITY

Reported profit before tax fell by 21.9% to £982 million from £1.258 billion, the difference between the headline and reported figures reflecting principally the £153 million of restructuring and transformation costs and £48 million of goodwill impairment charges. In constant currencies, reported profit before tax fell by 22.3%.

Reported profit after tax fell by 29.4% to £707 million from £1.002 billion. In constant currencies, profits after tax fell 30.3%.

Headline EBITDA was down 5.3% to £1.830 billion, from £1.933 billion the previous year and down 5.6% in constant currency. The Group's revenue is more weighted to the second half of the year across all regions and sectors, and, particularly, in the faster growing markets of Asia Pacific and Latin America. As a result, profitability and margin continue to be skewed to the second half of the year, with the Group earning approximately 40% of its profits in the first half and 60% in the second half. Headline operating profit for 2019 was down 5.5% to £1.561 billion, from £1.651 billion and down 5.6% in constant currencies.

Headline operating margin[1] was down 0.8 margin points to 14.4%, down 0.6 margin points in constant currency and down 1.2 margin points like-for-like. The difference between the constant currency and like-for-like margin reflects the impact of IFRS 16 Leases. The Group's operating margin of 14.4% is after charging £43 million of severance costs, compared with £30 million in 2018 and £294 million of incentive payments, which were 15.8% of operating profit before incentives, a similar level to the £311 million or 15.9% in 2018.

The Group's headline operating margin, excluding all incentives[2] and income from associates, was 17.1%, down 0.9 margin points, compared with 18.0% last year. The Group's staff costs to revenue less pass-through costs ratio, including severance and incentives, increased by 1.5 margin points to 65.4% compared to 63.9% in 2018.

On a like-for-like basis, the average number of people in the Group, excluding associates, in 2019 was 106,508 compared to 106,555 in 2018. On the same basis, the total number of people, excluding associates, at 31 December 2019 was 106,786 compared to 105,900 at 31 December 2018, an increase of 0.8%.

Notes

1 Headline operating profit (excluding income from associates) as a percentage of revenue less pass-through costs.

2 Short- and long-term incentives and the cost of share-based incentives.

KEY PERFORMANCE INDICATORS (2019)

-1.6%
Like-for-like revenue less pass-through costs growth
(2018: -0.2%)

14.4%
Headline operating margin
(2018: 15.2%)

89.3%
Free cash flow conversion[1]
(2018: 80.2%)

This Strategic report should be read in conjunction with pages 94-137 and pages 198-203. The Group's key performance indicators are discussed in further detail in this report.

This Strategic report includes figures and ratios that are not readily available from the financial statements. Management believes that these non-GAAP measures, including constant currency and like-for-like growth, and headline profit measures, are both useful and necessary to better understand the Group's results. Where required, details of how these have been arrived at are shown in note 32 to the financial statements and are defined in the glossary on pages 204 and 205.

Note

1 Free cash flow conversion is the ratio of free cash flow to headline earnings. Free cash flow is after earnouts and changes in working capital and before new acquisition spend, disposals and shareholder distributions. Free cash flow conversion represents total continuing and discontinued operations.

EXCEPTIONAL GAINS AND RESTRUCTURING AND TRANSFORMATION COSTS

As outlined at the investor day on 11 December 2018, we have undertaken a strategic review of our operations. As part of that review, restructuring actions have been taken to right-size underperforming businesses, address high-cost severance markets and simplify operational structures. This has included the merger, closure or sale of a number of WPP's operating companies. It also includes transformation costs with respect to strategic initiatives like co-locations in major cities, IT transformation and shared services.

In 2019, the Group recorded £121 million of restructuring and transformation costs in relation to this plan, in addition to the £212 million in 2018. Of this £333 million total, £220 million relates to actions with a cash cost, with £158 million paid to date – the balance to be paid in 2020 and beyond. Total restructuring and transformation costs in 2019 of £153 million comprise the £121 million above and £32 million of other costs, primarily relating to the continuing global IT transformation programme.

These exceptional costs of £153 million and £48 million of associate company exceptional losses have been partly offset by exceptional gains of £58 million, primarily relating to the gain on the sale of the Group's investment in Chime.

This gives a net exceptional loss of £143 million and compares with a net exceptional loss in 2018 of £70 million.

DISCONTINUED OPERATIONS

As Kantar classifies as held for sale under IFRS 5, the profit for the year is presented as discontinued operations on the income statement. The decrease in profit for the year from £138 million in 2018 to £11 million in 2019 primarily reflects the goodwill impairment on classification as held for sale of £95 million and the tax expense on the disposal of £157 million, partially offset by the gain on sale of £74 million.

INTEREST AND TAXES

Net finance costs (excluding the revaluation of financial instruments and interest expense on lease liabilities) were £160 million, compared with £180 million in 2018, a decrease of £20 million.

The headline tax rate was 22.0% (2018: 20.7%) and on reported profit before tax was 28.0% (2018: 20.4%). The difference in the reported tax rate in 2019 was principally due to the revaluation of financial instruments not being tax deductible. Given the Group's geographic mix of profits and the changing international tax environment, the tax rate is expected to increase slightly over the next few years.

EARNINGS

Headline profit before tax was down 11.7% to £1.363 billion from £1.543 billion, and down 11.6% in constant currencies.

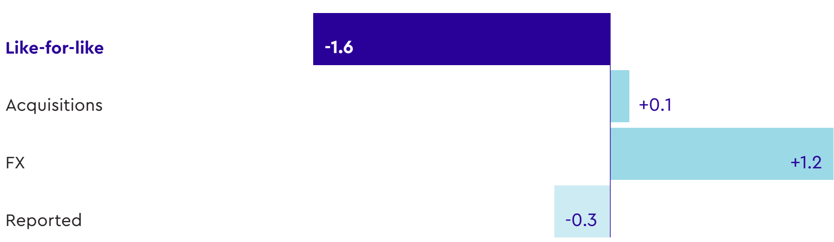
Profits attributable to shareholders fell 33.0% to £628 million from £937 million, again reflecting principally the £153 million of restructuring and transformation costs and £48 million of goodwill impairment. In constant currencies, profits attributable to shareholders fell by 33.8%.

Headline diluted earnings per share, for continuing and discontinued operations, fell by 14.2% to 92.7p from 108.0p. In constant currencies, earnings per share on the same basis fell by 14.9%. Reported diluted earnings per share, on the same basis, fell by 41.3% to 49.5p from 84.3p and decreased 42.3% in constant currencies.

REGIONAL REVIEW

North America constant currency revenue less pass-through costs was down 4.7% in the year and down 5.7% like-for-like, with a significant improvement in the second half. Revenue less pass-through costs was down 4.0% in the second half on a like-for-like basis compared to down 7.3% on the first half as the negative effect of some of the 2018 client assignment losses started to ease.

REVENUE LESS PASS-THROUGH COSTS GROWTH V 2018
%



United Kingdom constant currency revenue less pass-through costs was down 0.3% in the year and up 0.3% on a like-for-like basis, with the Group's global integrated agencies and particularly GroupM performing less well in the second half of the year, partly offset by a significant improvement in the Group's specialist public relations businesses.

Western Continental Europe constant currency revenue less pass-through costs grew 1.0% in the year with like-for-like up 0.7%, the second strongest performing region. Germany was significantly stronger in the second half of the year, partly offset by a softening in France, Italy and the Netherlands.

In **Asia Pacific, Latin America, Africa & the Middle East and Central & Eastern Europe**, on a constant currency basis, revenue less pass-through costs growth in the region was 0.4% for the year with like-for-like growth 1.4%, the strongest performing region. Like-for-like growth improved in the second half to 1.8%, compared to 1.1% in the first half, with Africa & the Middle East improving significantly, partly offset by a slight softening in Asia Pacific and Latin America.

REVENUE ANALYSIS

£ million	2019	Δ reported	Δ constant[1]	Δ LFL[2]	2018[3]
N. America	4,855	0.1%	-4.1%	-5.0%	4,852
United Kingdom	1,797	0.6%	0.6%	1.8%	1,785
W. Cont. Europe	2,629	1.5%	2.9%	1.5%	2,590
AP, LA, AME, CEE[4]	3,953	3.5%	3.6%	4.7%	3,820
Total Group	**13,234**	**1.4%**	**0.2%**	**0.0%**	**13,047**

REVENUE LESS PASS-THROUGH COSTS ANALYSIS

£ million	2019	Δ reported	Δ constant	Δ LFL	2018
N. America	4,034	-0.6%	-4.7%	-5.7%	4,060
United Kingdom	1,390	-0.3%	-0.3%	0.3%	1,394
W. Cont. Europe	2,177	-0.3%	1.0%	0.7%	2,183
AP, LA, AME, CEE	3,246	0.2%	0.4%	1.4%	3,239
Total Group	**10,847**	**-0.3%**	**-1.5%**	**-1.6%**	**10,876**

HEADLINE OPERATING PROFIT ANALYSIS

£ million	2019	% margin*	2018	% margin*
N. America	662	16.4%	711	17.5%
United Kingdom	188	13.6%	180	12.9%
W. Cont. Europe	262	12.0%	289	13.3%
AP, LA, AME, CEE	449	13.8%	471	14.6%
Total Group	**1,561**	**14.4%**	**1,651**	**15.2%**

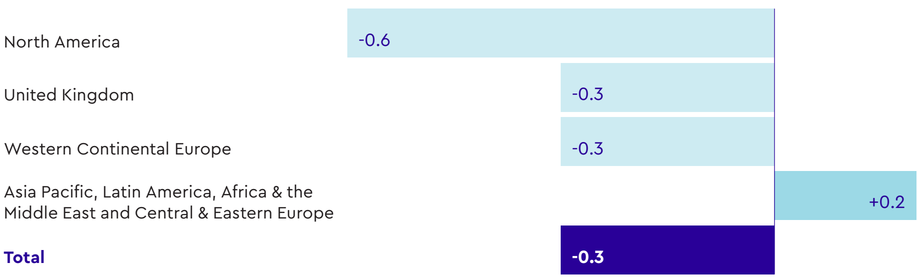
* Headline operating profit as a percentage of revenue less pass-through costs.

Notes

1 Percentage change at constant currency exchange rates.
2 Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals.
3 Prior year figures have been re-presented in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, as described in the Group's accounting policies.
4 Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe.

REVENUE LESS PASS-THROUGH COSTS GROWTH BY REGION V 2018

%



BUSINESS SECTOR REVIEW

Like-for-like revenue less pass-through costs in the Group's global integrated agencies was down 0.7% in the year, making it the strongest performing sector. There was a significant improvement in the second half of the year, with like-for-like growth of 0.3% compared to down 1.8% in the first half. Grey, Ogilvy, Wunderman Thompson and VMLY&R improved in the second half, partly offset by lower growth in GroupM.

Like-for-like revenue less pass-through costs in the Group's public relations businesses was down 1.0% in the year, with a significant improvement in the second half, down 0.4% on a like-for-like basis compared to down 1.5% in the first half. The Group's specialist public relations businesses Finsbury, Glover Park, Hering Schuppener, Buchanan and Clarion performed particularly strongly in the second half of the year.

In the Group's specialist agencies, like-for-like revenue less pass-through costs was down 5.6% in the year, as the Group's specialist brand consulting, advertising and direct, interactive and ecommerce businesses came under pressure, particularly in North America, Western Continental Europe and Asia Pacific. The Group's specialist agencies include the specialist global Ford agency, GTB, and performance reflects the loss of the omnichannel work in the second half of 2018.

REVENUE ANALYSIS

£ million	2019	Δ reported	Δ constant[1]	Δ LFL[2]	2018[3]
Global Integrated Agencies	10,205	2.8%	1.5%	1.4%	9,931
Public Relations	957	2.7%	0.5%	-0.7%	932
Specialist Agencies	2,072	-5.1%	-6.2%	-5.9%	2,184
Total Group	**13,234**	**1.4%**	**0.2%**	**0.0%**	**13,047**

REVENUE LESS PASS-THROUGH COSTS ANALYSIS

£ million	2019	Δ reported	Δ constant	Δ LFL	2018
Global Integrated Agencies	8,108	0.5%	-0.7%	-0.7%	8,071
Public Relations	898	2.1%	-0.1%	-1.0%	880
Specialist Agencies	1,841	-4.4%	-5.6%	-5.6%	1,925
Total Group	**10,847**	**-0.3%**	**-1.5%**	**-1.6%**	**10,876**

HEADLINE OPERATING PROFIT ANALYSIS

£ million	2019	% margin*	2018	% margin*
Global Integrated Agencies	1,220	15.0%	1,228	15.2%
Public Relations	141	15.7%	139	15.8%
Specialist Agencies	200	10.9%	284	14.7%
Total Group	**1,561**	**14.4%**	**1,651**	**15.2%**

* Headline operating profit as a percentage of revenue less pass-through costs.

Notes

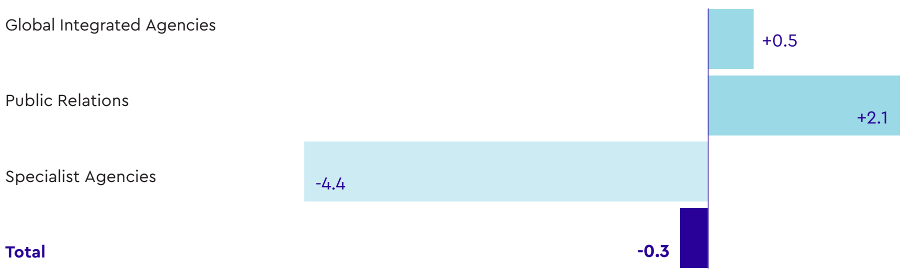
1 Percentage change at constant currency exchange rates.

2 Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals.

3 Prior year figures have been re-presented in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, as described in the Group's accounting policies.

REVENUE LESS PASS-THROUGH COSTS BY BUSINESS V 2018

%



CASH FLOW HIGHLIGHTS

In 2019, operating profit was £1.580 billion, depreciation, amortisation and goodwill impairment £734 million, non-cash share-based incentive charges £71 million, working capital and provisions inflow £350 million, net interest paid £190 million, tax paid £536 million, lease liabilities (including interest) paid £355 million, capital expenditure £394 million, earnout payments £130 million and other net cash outflows £86 million. Free cash flow was, therefore, an inflow of £1.044 billion.

This free cash inflow was enhanced by £2.221 billion in net cash acquisition payments and disposal proceeds (of which £1.971 billion was the Kantar disposal net of cash disposed and costs, and £250 million of net income from other disposal proceeds net of acquisition payments) and absorbed by £44 million in share buybacks and £750 million in dividends. This resulted in a net cash inflow of £2.471 billion.

Free cash flow conversion[1] in 2019 was 89% (2018: 80%).

Note

[1] Free cash flow conversion is the ratio of free cash flow to headline earnings. Free cash flow is after earnouts and changes in working capital and before new acquisition spend, disposals and shareholder distributions.

BALANCE SHEET HIGHLIGHTS

Average net debt in 2019 was £4.282 billion, compared to £5.025 billion in 2018, at 2019 exchange rates. On 31 December 2019 net debt was £1.540 billion, against £4.017 billion on 31 December 2018, a decrease of £2.477 billion (a decrease of £2.313 billion at 2019 exchange rates). The reduced period end debt figure reflects the benefit of £1.971 billion proceeds in relation to the disposal of 60% of the Group's interest in Phase 1 of the Kantar business.

RETURN OF FUNDS TO SHAREHOLDERS

Funds returned to shareholders in 2019 totalled £794 million, including dividends and share buybacks. In 2019, 4.6 million shares, or 0.4% of the issued share capital, were purchased at a cost of £44 million. All of these shares were purchased in the fourth quarter.

OUTLOOK

FINANCIAL GUIDANCE

We have made good progress with our three-year strategy during 2019, creating a simpler business, making significant investments for future growth and strengthening our balance sheet. Our financial performance in the second half of the year showed an encouraging improvement over the first half.

It is clear that the impact of Covid-19 on the business will be significant, but it is not possible at this stage to quantify the depth or duration of the impact. As a result, we have withdrawn our previously issued guidance for the 2020 financial year.

Revenue from continuing operations in the first quarter of 2020 was £2.847 billion, down 4.9% compared with the same period last year on a reported basis and down 4.6% on a constant currency basis. Like-for-like revenue was down 3.8% compared with last year. Revenue less pass-through costs was £2.366 billion, down 4.3% on a reported basis, down 4.0% in constant currency and down 3.3% like-for-like. In March, like-for-like revenue less pass-through costs was down 7.9% as the impact of Covid-19 began to be felt more widely across our business.

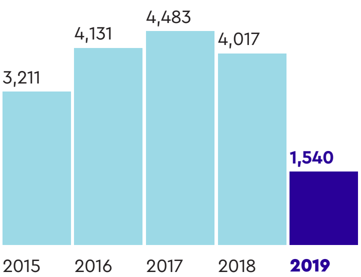
BALANCE SHEET, LIQUIDITY AND HEADROOM

WPP has a strong balance sheet and good liquidity. Over the last two years, we have raised approximately £3.2 billion from our disposals programme, selling 50 businesses and investments.

As at 31 December 2019 we had cash of £3.0 billion and total liquidity, including undrawn credit facilities, of £4.8 billion. Net debt was £1.5 billion, down from £4.0 billion a year earlier. Our year-end net debt/headline EBITDA ratio was 0.8x, compared to 2.1x the previous year.

NET DEBT

£ million



Our covenants, which relate to our $2.5 billion revolving credit facility, are <3.5x net debt/EBITDA and >5x EBITDA/net interest. Our bond portfolio at the 2019 year-end had an average maturity of 8.2 years, with only a May 2020 €250 million Eurobond due in the next two years.

Given the significant uncertainty over the coming months, we are taking prudent action now to maintain our liquidity and ensure that we emerge from this global crisis strong, secure, and ready to meet the continuing needs of our clients, shareholders and other stakeholders.

The Board has therefore decided to suspend the £950 million share buyback, funded by proceeds from the Kantar transaction. Since December 2019, we have completed £330 million of the programme.

In addition, the Board has suspended the 2019 final dividend of 37.3 pence per share, which was due to be proposed at the 2020 AGM. These two actions together will preserve approximately £1.1 billion of cash. The Board will continue to review the status of the 2019 dividend.

COST REDUCTION MEASURES

Most of our costs are variable in nature. We have commenced a review of our costs to protect profitability, where possible, from a decline in revenue. At the same time, we want to protect our people as much as possible, as well as our ability to serve clients and grow when markets recover. The immediate actions we have taken include: freezing new hires; reviewing freelance expenditure; stopping discretionary costs, including travel and hotels and the costs of award shows; and postponing planned salary increases for 2020.

In addition, members of the WPP Executive Committee, as well as the Board, have committed to taking a 20% reduction in their salaries or fees for an initial period of three months.

We anticipate these measures will generate total in-year savings for 2020 of £700-800 million. In addition, we are making a detailed assessment of further actions to reduce cost subject to the impact of the virus on our business over the coming weeks and months.

CASH CONSERVATION MEASURES

We have also reviewed our capital expenditure budgets for 2020 and looked at opportunities to improve working capital. We have identified savings in excess of £100 million in property and IT capital expenditure against an initial 2020 budget of around £400 million. On working capital, we have a standing weekly management process to review cash outflows and receipts to monitor our position. We are continuing to work closely with our clients to ensure timely payment for the services we have provided in line with contractual commitments. On media, we are working with clients and vendors to maintain the settlement flow. Should we see any deterioration in payment from our media clients we will take appropriate action to manage our cash position.

For more information on our strategy see pages 16-47