WPP | 2012 Interim Results

- **Billings up over 1% at £21.7 billion**
- **Reportable revenues up 5.5% to almost £5.0 billion**
- **Constant currency revenue up almost 7%**
- **Like-for-like revenue up 3.6%**
- **Operating margin of 11.5% up 0.5 margin points and 0.7 margin points like-for-like**
- **Headline profit before interest and tax £570 million up over 10% and over 13% in constant currency**
- **Headline profit before tax £467 million up almost 12% and over 17% in constant currency**
- **Profit before tax £358 million up 7% reflecting higher re-measurement gains in previous year and up over 13% in constant currency**
- **Headline diluted earnings per share of 25.8p up over 13% and over 18% in constant currency**
- **Dividends per share of 8.80p up 18%**
- **Return to the UK subject to share owner approval in December**

Key figures

£ million	H1 2012	Δ reported[1]	Δ constant[2]	% revenues	H1 2011	% revenues
Revenue	4,972	5.5%	6.8%	-	4,713	-
Gross Margin	4,568	4.9%	6.1%	-	4,353	-
Headline EBITDA[3]	682	10.0%	13.0%	13.7%	620	13.2%
Headline PBIT[4]	570	10.1%	13.5%	11.5%	518	11.0%
EPS headline diluted[5]	25.8p	13.2%	18.6%	-	22.8p	-
Diluted EPS[6]	21.6p	19.3%	26.1%	-	18.1p	-
Dividends per share	8.80p	18.0%	18.0%	-	7.46p	-

First-half and Q2 highlights

- **Billings increased by 1.2%** to £21.651bn
- **Revenue growth of 5.5%,** with like-for-like growth of 3.6%, 3.2% growth from acquisitions and -1.3% from currency. Q2 slightly softer than Q1
- **Growth in all regions and business segments** with Q2 improvement in the UK and the faster growing markets offset by slower growth in the mature markets of the USA and Western Continental Europe. Continuing double-digit growth from South East Asia, Latin America and Africa
- **Like-for-like gross margin growth** lower than revenue growth by 0.3 percentage points at 3.3%, partly due to stronger comparatives and changes in technology and increased pricing pressure, particularly in consumer insight

[1] Percentage change in reported sterling
[2] Percentage change at constant currency rates
[3] Headline earnings before interest, tax, depreciation and amortisation
[4] Headline profit before interest and tax
[5] Diluted earnings per share based on headline earnings
[6] Diluted earnings per share based on reported earnings

- **Headline EBITDA growth of 10%** delivered by organic revenue growth and by 0.5 margin point improvement with operating costs (+4%) rising less than revenues
- **Headline PBIT increase of 10%** with PBIT margin also rising by 0.5 points
- **Gross margin margins**, probably a more accurate competitive comparator, up 0.6 margin points to 12.5%
- **Headline diluted EPS up 13%** resulting in 18% higher first interim ordinary dividend of 8.80p, in line with the Company's objective of reaching a 40% pay-out ratio, in the medium term
- **Average net debt increased by £307m** (+12%) to £2.898bn compared to last year, but continuing to reflect an improvement of approximately £200 million in working capital since the beginning of the year
- **Creative excellence recognised again in 2012** with the award of the Cannes Lion to WPP for the most creative Holding Company for the second consecutive year since its initiation and another to Ogilvy & Mather Worldwide for the most creative agency network

Current trading and outlook

- **July 2012** | Revenues up over 3% like-for-like for month, with year-to-date similar to the first half
- **FY 2012 quarter 2 revised forecast** | Slight reduction in like-for-like revenue growth from the quarter 1 revised forecast, with first and second half more balanced and headline operating margin target, as previously, of 14.8% up 0.5 margin points
- **Focus in 2012** | 1. Revenue growth from leading position in both faster growing geographic markets and digital, "horizontality", premier parent company creative position, new business strength 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 interim 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	2012	Δ reported	Δ constant[7]	Δ LFL[8]	acquisitions	2011
First quarter	2,392	7.6%	7.4%	4.0%	3.4%	2,223
Second quarter	2,580	3.6%	6.2%	3.2%	3.0%	2,490
First half	4,972	5.5%	6.8%	3.6%	3.2%	4,713

Billings were up 1.2% at £21.651 billion. Estimated net new business billings of £2.475 billion ($3.960 billion) were won in the first half of the year, more than double that in the first half of last year, placing the Group first 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, including several very large industry-leading advertising, digital and media assignments, the full benefit of which will be seen in Group revenues later in 2012 and in 2013.

Reportable revenue was up 5.5% at £4.972 billion. Revenue on a constant currency basis was up 6.8% compared with last year, chiefly reflecting the strength of the pound sterling against the euro and against certain BRIC[9] and Next 11[9] currencies, partly offset by the weakness of the pound sterling against the US dollar. As a number of our competitors report in US dollars and in euros, appendices 2 and 3 show WPP's interim results in reportable US dollars and euros respectively. This shows that US dollar reportable revenues were up 2.9% to $7.844 billion, which compares with the $6.868 billion of our closest competitor and euro reportable revenues were up 11.5% to €6.049 billion, which compares with €3.084 billion of our nearest European-based competitor.

On a like-for-like basis, which excludes the impact of acquisitions and currency, revenues were up 3.6% in the first half, with gross margin up 3.3%. In the second quarter, like-for-like revenues were up 3.2%, less than the first quarter 4.0%, with gross margin up 2.6%, following 4.0% in the first quarter. Data continues to reflect increased 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 and functional sectors. Quarter two saw a continuation of the strength of advertising spending in fast moving consumer goods, especially. Nonetheless, clients understandably continue to demand increased effectiveness and efficiency, i.e. better value for money. Although corporate balance sheets are much stronger than pre-Lehman and confidence is higher as a result, the Eurozone, Middle East, China hard or soft landing and US deficit uncertainties demand caution. The $2 trillion net cash lying virtually idle in those balance sheets, seems destined to remain so.

Operating profitability

Headline EBITDA was up 10.0% to £682 million and up 13.0% in constant currencies. Headline operating profit was up 10.1% to £570 million from £518 million and up 13.5% in constant currencies, now well over half a billion pounds sterling. It should be noted that our profitability tends to be more skewed to the second half of the year compared with our competitors.

[7] Percentage change at constant currency exchange rates
[8] Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals
[9] See definitions on page 6

Headline operating margins were up 0.5 margin points to 11.5% compared to 11.0% in the first half of last year, in line with the Group's full year margin target of a 0.5 margin point improvement. On a like-for-like basis, operating margins were up 0.7 margin points. Headline gross margin margins were up 0.6 margin points to 12.5%.

Given the significance of consumer insight revenues to the Group, gross margin margins are probably a more meaningful measure of competitive margin performance. All these margin comparisons can be regarded as "clean" margin increases that are not impacted by the "one-off" provisions, that seem to be increasingly common within our industry.

On a reported basis, operating margins, before all incentives[10], were 14.0%, up 0.1 margin points, compared with 13.9% last year. Like-for-like operating margins, before all incentives[10], were up 0.3 margin points to 14.1%. The Group's staff cost to revenue ratio, including incentives, increased by 0.4 margin points to 61.1% compared with 60.7% in the first half of 2011. This reflected the impact of increasing staff numbers in the second half of 2011 and increasing investment, mostly in existing talent, particularly in the faster growing geographic and functional markets, as like-for-like revenues and gross margin continued to increase significantly.

On the same basis, the Group's staff cost to revenue ratio, excluding incentives, increased by 0.9 margin points to 58.6% from 57.7%.

Operating costs

During 2011, the Group continued to benefit from containing operating costs, with improvements across most categories, particularly direct, property, commercial and office costs.

In the first half of 2012, reported operating costs[11] rose by 5.0% and by 6.0% in constant currency, compared with reported revenue growth of 5.5% and constant currency growth of 6.8%. Reported staff costs excluding all incentives rose by 7.0% and by 8.0% in constant currency. Incentive costs amounted to £127.4 million or 19.0% of headline operating profits before incentives and income from associates, compared to £139.3 million last year, or 22.0%, a decrease of £11.9 million or 8.5%. Target incentives are set at 15% of operating profit before bonus and taxes, maximum at 20% and super-maximum at 25% in some instances.

On a like-for-like basis, the average number of people in the Group, excluding associates, was 113,311 in the first half of the year, compared to 110,365 in the same period last year, an increase of 2.7%. On the same basis, the total number of people in the Group, excluding associates, at 30 June 2012 was 113,761 compared to 111,960 at 30 June 2011, an increase of 1,801 or 1.6%, reflecting careful control of headcount increases. On the same basis revenues increased 3.6% and gross margin 3.3%.

Interest and taxes

Net finance costs (excluding the revaluation of financial instruments) were up slightly at £103.2 million compared to £100.9 million in 2011, an increase of £2.3 million, reflecting higher long-term funding costs and higher levels of average net debt.

The tax rate on headline profit before tax was 22.0% (2011 22.0%). This excludes the impact of the net deferred tax credit in relation to the amortisation of acquired intangible assets and other goodwill items. The tax rate on reported profit before tax was 14.2% (2011 21.4%).

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[10] Short and long-term incentives and the cost of share-based incentives

[11] Includes direct costs, but excluding goodwill impairment, amortisation and impairment of acquired intangibles, investment gains and write-downs and gains on re-measurement of equity interests on acquisition of controlling interest

Earnings and dividend

Headline profit before tax was up 11.9% to £467 million from £417 million, or up 17.1% in constant currencies.

Reported profit before tax rose by 7.0% to £358 million from £334 million, principally reflecting lower re-measurement gains on step-ups in associates than in 2011. In 2011, reported profit before tax rose by 37%, to £334 million, partly driven by gains on re-measurement. In constant currencies, reported profit before tax, for the first half of 2012, rose by 13.4%.

Profits attributable to share owners rose by 20.4% to £278 million from £231 million.

Diluted headline earnings per share rose by 13.2% to 25.8p from 22.8p. In constant currencies, earnings per share on the same basis rose by 18.6%. Diluted reported earnings per share were up 19.3% to 21.6p and up 26.1% in constant currencies.

In line with the statement made in the Group's 2010 Preliminary Results, announcing the objective to raise the dividend pay-out ratio from around a third to 40%, the Board declares an increase of 18% in the first interim dividend to 8.80p per share, 500 basis points greater than the growth in diluted earnings per share, in line with previous practice. The dividend pay-out ratio for the first half is, therefore, 34%, reflecting the stronger weighting of the second interim dividend. The record date for the first interim dividend is 12 October 2012, payable on 12 November 2012.

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.

The United Kingdom Coalition Government has now enacted legislation covering the taxation of foreign profits from 2013. This will mean that, at least for the life of this Government, there will be no tax cost to the Group by returning its Headquarters to the United Kingdom from Ireland. The decision to return to the United Kingdom has already been approved by the Board and will require share owners consent at an EGM planned for early December 2012. Unfortunately, one of the consequences of the change in domicile is the loss of the scrip dividend alternative, which will affect UK tax-paying individual share owners the most.

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 the second quarter and first half of 2012, as well as the proportion of Group revenues and operating profit and operating margin by region;

Revenue analysis

£ million	Q2 2012	Δ reported	Δ constant[12]	Δ LFL[13]	% group	Q2 2011	% group
N. America	884	5.5%	2.9%	-0.6%	34.3%	838	33.7%
United Kingdom	307	6.1%	6.1%	3.5%	11.9%	289	11.6%
W. Europe	624	-3.0%	5.3%	0.8%	24.2%	643	25.8%
AP, LA, AME, CEE[14]	765	6.2%	11.1%	9.8%	29.6%	720	28.9%
Total Group	**2,580**	**3.6%**	**6.2%**	**3.2%**	**100.0%**	**2,490**	**100.0%**

£ million	H1 2012	Δ reported	Δ constant	Δ LFL	% group	H1 2011	% group
N. America	1,748	6.2%	3.9%	0.4%	35.1%	1,645	34.9%
United Kingdom	591	5.6%	5.6%	3.0%	11.9%	560	11.9%
W. Europe	1,187	1.0%	6.6%	1.6%	23.9%	1,175	24.9%
AP, LA, AME, CEE	1,446	8.5%	11.1%	9.7%	29.1%	1,333	28.3%
Total Group	**4,972**	**5.5%**	**6.8%**	**3.6%**	**100.0%**	**4,713**	**100.0%**

Operating profit analysis (Headline PBIT)

£ million	H1 2012	% margin	H1 2011	% margin
N. America	239	13.7%	209	12.7%
United Kingdom	73	12.3%	74	13.1%
W. Europe	95	8.0%	94	8.0%
AP, LA, AME, CEE	163	11.2%	141	10.6%
Total Group	**570**	**11.5%**	**518**	**11.0%**

North America revenue growth slowed in the second quarter, following reduced client spending in parts of the healthcare business, custom research, the Group's call centre operation and public affairs businesses in Washington, in advance of the US General Election.

However, **United Kingdom** revenue growth improved over the first quarter and continued to show strong growth, with constant currency revenues up over 6% in the second quarter and up 3.5% like-for-like. The Group's media investment management businesses, the Ogilvy Group and Hogarth showed particularly strong growth.

Western Continental Europe revenue growth, as with the USA, slowed in the second quarter, with constant currency revenues up 5.3% and up 0.8% like-for-like. Germany, Italy and Switzerland showed high single digit growth in the second quarter, but Spain, Portugal, France, Greece, Ireland, the Netherlands, Denmark and Finland remain slower.

Asia Pacific, Latin America, Africa & the Middle East and Central and Eastern Europe remained the strongest region, with constant currency revenues up 11.1% in the second quarter and up 9.8% like-for-like, slightly ahead of the first quarter like-for-like growth of 9.5%. This double digit growth was driven principally by Latin America and the **BRICs**[15] and **Next 11**[16] parts of Asia Pacific and the **CIVETS**[17] and the **MIST**[18]. Africa showed a sharp improvement in the second quarter, with

[12] Percentage change at constant currency rates
[13] Like-for-like growth at constant currency exchange rates and excluding the effects of acquisitions and disposals
[14] Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe
[15] Brazil, Russia, India and China (accounting for almost $1.1 billion revenues, including associates, in the first half)
[16] Bangladesh, Egypt, Indonesia, South Korea, Mexico, Nigeria, Pakistan, Philippines, Vietnam and Turkey (the Group has no operations in Iran, accounting for over $350 million revenues, including associates, in the first half)
[17] Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (accounting for over $380 million revenues, including associates, in the first half)
[18] Mexico, Indonesia, South Korea and Turkey, (accounting for almost $275 million revenues, including associates, in the first half)

like-for-like revenues up over 17%, with particularly strong growth in South Africa, Kenya, Nigeria and Egypt.

As in the first quarter, **Latin America** showed the strongest growth of all our sub-regions in the second quarter, with like-for-like revenues up well over 13%. Growth in the **BRICs** was up almost 14% on a like-for-like basis in the second quarter, with **Next 11** and **CIVETS** up well over 11% and up almost 13% respectively on the same basis. In **Central and Eastern Europe**, revenues were up over 4% like-for-like in the second quarter, slightly below the first quarter, with double digit growth in Russia, Romania, the Slovak Republic and Kazakhstan, but with Poland, Hungary, the Ukraine and Czech Republic slower.

In the first half of 2012, over 29% of the Group's revenues came from Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe, an increase of almost 1.0 percentage point compared with the first half of last 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 for the second quarter and first half of 2012 and operating profit and operating margin by communications services sector;

Revenue analysis

£ million	**Q2 2012**	Δ reported	Δ constant	Δ LFL	% group	**Q2 2011**	% group
AMIM[19]	1,071	4.1%	7.0%	5.9%	41.5%	1,028	41.3%
Consumer Insight	622	-0.4%	3.1%	0.8%	24.1%	625	25.1%
PR & PA[20]	234	5.6%	5.8%	0.3%	9.1%	221	8.9%
BI, HC & SC[21]	653	6.0%	8.3%	2.2%	25.3%	616	24.7%
Total Group	**2,580**	**3.6%**	**6.2%**	**3.2%**	**100.0%**	**2,490**	**100.0%**

£ million	**H1 2012**	Δ reported	Δ constant	Δ LFL	% group	**H1 2011**	% group
AMIM	2,044	6.1%	7.6%	6.1%	41.1%	1,927	40.9%
Consumer Insight	1,191	1.2%	3.2%	1.0%	24.0%	1,177	25.0%
PR & PA	459	6.8%	6.3%	1.0%	9.2%	430	9.1%
BI, HC & SC	1,278	8.3%	9.1%	3.0%	25.7%	1,179	25.0%
Total Group	**4,972**	**5.5%**	**6.8%**	**3.6%**	**100.0%**	**4,713**	**100.0%**

Operating profit analysis (PBIT)

£ million	**H1 2012**	% margin	**H1 2011**	% margin
AMIM	283	13.9%	236	12.3%
Consumer Insight	84	7.0%[22]	89	7.5%
PR & PA	62	13.5%	67	15.5%
BI, HC & SC	141	11.0%	126	10.7%
Total Group	**570**	**11.5%**	**518**	**11.0%**

[19] Advertising, Media Investment Management
[20] Public Relations & Public Affairs
[21] Branding and Identity, Healthcare and Specialist Communications
[22] Gross margin margins for Consumer Insight 9.7% (2011 10.3%)

Advertising and Media Investment Management

As in the first quarter, advertising and media investment management remains the strongest performing sector. Constant currency revenues grew by 7.0% in the second quarter, compared with 8.4% in the first quarter, with like-for-like growth of 5.9%, very similar to the first quarter like-for-like growth of 6.2%. Growth in the Group's advertising businesses was slightly stronger than the first quarter, with media investment management slightly weaker, although even then like-for-like growth was up strongly at almost 12%. Of the Group's advertising networks, as in the latter part of 2011 and the first quarter of 2012, Ogilvy & Mather Advertising continued the strong start to the year with double digit growth in North America and Latin America, following several major new business successes towards the end of 2011. Growth in the Group's media investment management businesses was consistently strong throughout 2011 and this has continued into the first half of 2012, with constant currency revenues up over 14% for the first half and like-for-like growth up over 12%. This like-for-like growth rate is yet again stronger than pure play listed media planning and buying competitors, of which there are now none, all having been absorbed into full-service groups.

The Group gained a total of £2.475 billion ($3.960 billion) in net new business wins (including all losses and excluding retentions) in the first half, compared to £1.201 billion ($1.922 billion) in the same period last year. Of this, Ogilvy & Mather Worldwide, JWT, Y&R, Grey and United generated net new business billings of £593 million ($949 million). Also, out of the Group total, 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 £1.502 billion ($2.403 billion). This new business performance ranks top of the class in all new business surveys in the first half.

Reported operating margins grew strongly, increasing by 1.6 margin points to 13.9% in the first half, as revenue and cost growth continued to be well balanced.

Consumer Insight

On a constant currency basis, consumer insight revenues grew 3.1% in the second quarter, very similar to the first quarter, with like-for-like revenues up 0.8% compared with 1.3% in the first quarter. Like-for-like revenues in the faster growing markets of Asia Pacific, Latin America, Africa and the Middle East were up strongly and ahead of the first quarter, but the USA, the UK and Western Continental Europe softened in the second quarter, but less so than indicated by competitors' comparative data. In the US, the custom research business in TNS and Millward Brown, together with Added Value and the call centre operation were the most affected. Reported operating margins slipped 0.5 margin points to 7.0%, partly due to client pricing pressure and additional re-structuring severance in the USA, the UK and Western Continental Europe and significant technology investments.

Public Relations and Public Affairs

In constant currencies, public relations and public affairs revenues were up 5.8% in the second quarter, with like-for-like up 0.3%. These compare to 6.8% and 1.9% respectively in the first quarter. The USA, the UK and Asia Pacific grew less strongly in the second quarter, with the public affairs businesses in Washington and Penn Schoen Berland, the USA polling business in Burson-Marsteller, particularly affected. Cohn & Wolfe continued the strong growth seen in the first quarter, with Hering Schuppener, one of the Group's specialist PR businesses in Germany, also improving. Reported operating margins fell 2.0 margin points to 13.5%, with most businesses, except Cohn & Wolfe, showing lower margins.

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 8.3% in the second quarter, with like-for-like growth of 2.2%. This compares to like-for-like growth of 3.8% in the first quarter as the Group's branding & identity businesses in the UK, healthcare and direct, digital and interactive in Western Continental Europe saw slower growth. The Group's specialist communications businesses continued to perform strongly in the second quarter. Reported operating margins improved 0.3 margin points to 11.0% in the first half.

People, Clients, "Horizontality" and Countries

Including associates, the Group currently employs over 162,000 full-time people in over 3,000 offices in 110 countries. It services 340 of the Fortune Global 500 companies, 29 of the Dow Jones 30, 64 of the NASDAQ 100, 28 of the Fortune e-50 and 653 national or multi-national clients in three or more disciplines. 390 clients are served in four disciplines and these clients account for over 55% of Group revenues. This reflects the increasing opportunities for co-ordination between activities both nationally and internationally. The Group also works with 320 clients in 6 or more countries. The Group estimates that more than 35% of new assignments in the first half of the year were generated through the joint development of opportunities by two or more Group companies. "Horizontality" is clearly becoming an increasingly important part of client strategies, particularly as they continue to invest in brand in slower-growth markets and both capacity and brand in faster-growth markets.

Cash flow highlights

In the first half of 2012, operating profit was £455 million, depreciation, amortisation and impairment £194 million, non-cash share-based incentive charges £44 million, net interest paid £107 million, tax paid £143 million, capital expenditure £116 million and other net cash inflows £48 million. Free cash flow available for working capital requirements, debt repayment, acquisitions, share re-purchases and dividends was, therefore, £375 million.

This free cash flow was absorbed partly by £140 million in net cash acquisition payments and investments (of which £50 million was for earnout payments and loan note redemptions with the balance of £90 million for investments and new acquisition payments net of disposal proceeds) and £66 million in share repurchases, a total outflow of £206 million. This resulted in a net cash inflow of £169 million, before any changes in working capital.

A summary of the Group's unaudited cash flow statement and notes as at 30 June 2012 is provided in Appendix 1.

Acquisitions

In line with the Group's strategic focus on new markets, new media and consumer insight, the Group completed 40 transactions in the first half; 20 acquisitions and investments were in new markets (of which 14 were in new media), 13 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 the first six months of 2012, acquisitions and increased equity stakes have been completed in **advertising and media investment management** in the United States, the Netherlands, the Slovak Republic, Israel, Jordan, China and Vietnam; **in consumer insight** in the United States, Germany, UAE, China and Pakistan; **in public relations and public affairs** in the United States, the United Kingdom, Finland, Russia and Australia; **in direct, digital and interactive**

in the United States, the United Kingdom, Germany, Hungary, Russia, South Africa, Turkey, Australia, China, Indonesia, Pakistan and Singapore; and **in healthcare** in Hong Kong.

In May 2012, Salesforce.com announced the acquisition of Buddy Media Inc., yielding a gross exceptional gain of over $50m on the Group's equity stake. $36m was received on 23 August, with the balance due over the next few weeks and will be included, as an exceptional gain, in the accounts for the second half. The acquisition of the leading digital agency AKQA was completed on 26 July and will be included in the results for the second half from 1 August. The Company now has four of Forrester's seven digital leaders. No other group has more than one.

Balance sheet highlights

Average net debt in the first six months of 2012 was £2.898 billion, compared to £2.591 billion in 2011, at 2012 exchange rates. This represents an increase of £307 million, but continues to reflect the improvements in working capital since the beginning of the year of over £200 million. At 31 December 2011, net debt was £577 million more than 31 December 2010; at 31 March 2012 net debt was £416 million more than 31 March 2011; after the first four months it was £364 million more than the comparative period last year and reduced further to £307 million by 30 June. On 30 June 2012 net debt was £2.861 billion, against £2.879 billion on 30 June 2011, a decrease of £18 million and £12 million in constant currencies.

Your Board continues to examine the allocation of its EBITDA, (of £1.7 billion or over $2.7 billion for the preceding twelve months) and substantial free cash flow (of almost £1.1 billion or approximately $1.7 billion per annum, also for the previous twelve months), to enhance share owner value. The Group's current market value of £10.6 billion implies an EBITDA multiple of 6.2 times, on the basis of the trailing 12 months EBITDA to 30 June 2012. Including net debt at 30 June of £2.861 billion, the Group's enterprise value to EBITDA multiple is 7.9 times. The Group's free cash flow multiple is 9.9 times for the same period.

A summary of the Group's unaudited balance sheet and notes as at 30 June 2012 is provided in Appendix 1.

Return of funds to share owners

Following the strong first-half results your Board raised the dividend by 18%, a pay-out ratio in the first half of 34%. This reflects the relative absolute size and weighting of the second interim dividend. As indicated previously, the Company's objective is to increase the dividend pay-out ratio over time, to approximately 40% from the 2010 rate of 31%. In 2011, it reached 36% on headline diluted earnings per share (excluding the exceptional tax credit).

During the first six months of 2012, 7.995 million shares, or 0.6% of the issued share capital, were purchased at a cost of £66.2 million and an average price of £8.28 per share.

Current trading

July revenues were up over 3% like-for-like and showed a similar pattern to the second quarter, although the UK, Western Continental Europe, Africa & the Middle East and Latin America were ahead of the second quarter growth rates with the USA and Asia Pacific below. Cumulative like-for-like revenue growth for the first seven months of 2012 is now 3.5%. The Group's quarter 2 revised forecasts, having been reviewed at the parent company level in the first half of August, indicate very similar levels of like-for-like revenue growth for the year.

Outlook

Macroeconomic and industry context

Following the Group's record year in 2011, 2012 started reasonably well with a strong first quarter and slightly slower second quarter. All geographies and sectors grew. There has been some slowing of revenues during the second quarter in the USA and certain markets in Western Continental Europe affected by the continuing Eurozone crisis. On the other hand, the UK, Asia Pacific, Latin America and Africa & the Middle East continue to grow strongly. As a consequence, our operating companies are hiring cautiously and responding to any geographic, functional and client shifts in revenues. Operating profit is above budget and last year. The increase in reported margin is in line with the Group's full year margin target of 0.5 margin points improvement and effectively even greater, as, for the first half, like-for-like operating margins were 0.7 margin points stronger. The difference to the reported margin was caused by the impact of a stronger pound sterling.

The pattern of 2012 looks very similar to 2010 and 2011, albeit at lower overall like-for-like growth rates – in effect, the same but less. Forecasts of worldwide real GDP growth still hover around 2.5-3.5%, with inflation of 2% giving nominal GDP growth of 4.5-5.5%. Advertising as a proportion of GDP should at least remain constant, although it is still at relatively depressed historical levels, particularly in mature markets, post-Lehman. The three maxi-quadrennial events of 2012, the UEFA EURO 2012 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. But, there remain continuing concerns over the Eurozone, Iran and the Middle-East and the impact of these on faster growing markets' growth rates. There is also the elephant in the room, that many ignore, the growing US fiscal deficit, which with the nomination of Paul Ryan as the Republican Vice-Presidential nominee, looks set to be the defining issue of the 2012 US Presidential campaign.

Looking further ahead, 2013 is likely to be more challenging. Although current real and nominal GDP forecasts are even stronger for 2013 than 2012, there will be no maxi- or mini- quadrennial events in that year. A re-elected or newly elected United States President will have to confront the growing US budget deficit, whilst possibly dealing with a deadlocked Congress. However, 2014 looks a better prospect, with the World Cup in Brazil, the Winter Olympics in Sochi and the mid-term Congressional elections in America. The first two events will continue to re-position Brazil and Latin America and Russia and Central and Eastern Europe in the world's mind, just as the Beijing Olympics did for China and Asia and the World Cup did for South Africa and the continent of Africa – and, possibly, London 2012 did for the UK.

The progress made at Cannes in 2011 was particularly pleasing as the Group was recognised for its creative excellence by the first-ever award of a Cannes Lion to the most creative Holding Company. That creative excellence has been sustained and exceeded in 2012 with the second consecutive award of a Cannes Lion to the most creative Holding Company and, additionally, the award of network of the year to Ogilvy & Mather Worldwide.

Financial guidance

For 2012, reflecting the first half revenue growth and quarter 2 revised forecasts, which indicate:

- Like-for-like revenue growth of close to 3.5% (vs. budget of 4.0%)
- Operating margin improvement of 0.5 margin points in line with full year margin target

For the remainder of 2012, our prime focus will be on meeting our margin objectives by balancing revenue growth and operating costs and by increasing our cost flexibility. In addition to managing

absolute levels of cost, 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 (incentives, freelancers and consultants) have returned to historical highs of around 7% of revenues in a full year and continue to position the Group well for the balance of 2012 and 2013. The disposal of the Group's Madison Avenue freehold property should yield another significant capital gain in the second half, in addition to the gain on the sale of the Group's stake in Buddy Media referred to above.

At the same time, we still intend to grow faster than the industry average, but without sacrificing operating margin or operating margin expansion. Following our growth by acquisition, there are also significant back-office finance systems and infrastructure economies to be gained through process simplification, off-shoring and outsourcing, which should add over one margin point to realised operating margins over the next five years. 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 by the appointment of client leaders for our top 30 global clients, accounting for about one third of total annual revenues of over $16 billion, and country managers in eleven test markets. The focus continues on the "horizontal areas" of media investment management, healthcare, sustainability, 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. The continued success of this approach has been further demonstrated by the winning of several major "Team" assignments in the last few months.

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

- Revenue growth greater than the industry average
- Annual improvement in gross margin or staff-cost-to-revenue ratio of +0.3 to +0.6 points
- Annual PBIT growth of +10% to +15% p.a. delivering margin expansion of +0.5 to +1.0 points

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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.

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