Letter to share owners*

Dear share owner

2011, our twenty-sixth year, was a record year in almost all respects. Revenue, profit before tax and earnings per share all reached new highs. Yet, as pleasing as these financial results are, perhaps your Company's most satisfying achievement in 2011 was the first ever award of a Cannes Lion to a Holding Company, in recognition of your Company's collective creative excellence. 2011 demonstrated once again that outstanding creativity and financial success go hand in hand.

Forward-looking statements

In connection with the provisions of the Private Securities Litigation Reform Act of 1995 (the 'Reform Act'), the Company may include forward-thinking statements (as defined in the 'Reform Act') in oral or written public statements issued by or on behalf of the Company. These forward-looking statements may include, among other things, plans, objectives, projections and anticipated future economic performance based on assumptions and the like that are subject to risks and uncertainties. As such, actual results or outcomes may differ materially from those discussed in the forward-looking statements. Important factors which may cause actual results to differ include but are not limited to: the anticipated loss of a material client or key personnel, delays or reductions in client advertising budgets, shifts in industry rates of compensation, government compliance costs or litigation, natural disasters or acts of terrorism, the Company's exposure to changes in the values of other major currencies (because a substantial portion of its revenues are derived and costs incurred outside of the UK) and the overall level of economic activity in the Company's major markets (which varies depending on, among other things, regional, national and international political and economic conditions and government regulations in the world's advertising markets). In addition, you should consider the risks described under the caption 'Principal risks and uncertainties' on pages 112 to 114, which could also cause actual results to differ from forward-looking information. In light of these and other uncertainties, the forward-looking statements included in this document should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved. The Company undertakes no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

* This letter to share owners should be read in conjunction with and as part of the management report set out in the section headed Directors' report on pages 105 to 116.

This record performance was achieved in difficult circumstances, particularly in the second half of the year, when the Eurozone crisis triggered uncertainty amongst consumers and corporates across the globe, resulting in a slowdown of economic activity in most geographic regions and functional sectors.

Although your share price declined in 2011 by around 14% to 675.5p at the year end, it has since increased sharply, to 855.5p at the time of writing, up 27% from 1 January 2012. Total share owner return was enhanced by a 38% increase in dividends to 24.6p, a record level, and included a 45% increase in the second interim dividend to 17.14p, moving more rapidly towards the Company's new dividend payment ratio target of 40%.

Billings were up almost 5% to £44.8 billion. Revenues were up over 7% to £10.0 billion, the first time the Group has exceeded £10 billion. Including 100% of associates, revenue is estimated to total over £12.1 billion. Our revenues exceeded all our competitors for the fourth consecutive year and by an increasing amount. Headline PBIT was up over 16% to £1.429 billion against £1.229 billion in 2010. Headline PBIT margin was 14.3% in 2011 against 13.2% last year, well ahead of target and equal to the pro-forma high pre-Lehman.

On gross margin, the headline PBIT margin was 15.5%, up 1.1 margin points on 2010. This is probably a more accurate basis for competitive comparisons. Reported profit before interest and tax rose over 22% to £1.258 billion from £1.028 billion.

Headline EBITDA (which is a key metric that private equity firms, for example, use for valuing companies) increased by 14% to £1.640 billion. Headline profit before tax was up almost 19% to £1.229 billion and reported profit before tax was up over 18% to £1.008 billion, above £1 billion for the first time. Diluted headline earnings per share were up over 19% to 67.7p (an all-time high) and diluted reported earnings per share were up over 40% to 64.5p.

Free cash flow strengthened to £1.013 billion in the year, over £1 billion for the first time. Net debt averaged £2.8 billion in 2011, down £0.2 billion at 2011 exchange rates, and net debt at 31 December 2011 was £2.5 billion, £0.6 billion higher than 2010, reflecting stronger acquisition and share buy-back activity in the latter half of the year. Equity and debt analysts appear comfortable with the level of the Group's average net debt, which was around 1.7 times headline EBITDA in 2011 compared with 2.1 times in 2010, and well within the Group's current target range of 1.5-2.0 times.

Headline interest cover in 2011 was 7.1 times. So far, in the first three months of 2012, average net debt was up approximately £0.4 billion at £2.6 billion against £2.2 billion for the same period in 2011, at 2012 exchange rates, starting to show an improvement on the 2011 year-end position. A positive sign of this improvement is the recent upgrade by Moody's of the Group's debt ratings. Our long-term debt is now rated Baa2 and BBB and our short-term debt P2 and A2, by Moody's and Standard & Poor's respectively.

With a current equity market capitalisation of approximately £10.8 billion, the total enterprise value of your Company is approximately £13.6 billion, a multiple of 8.3 times 2011 headline EBITDA.

Growth in revenues despite the Eurozone crisis

Our reported revenue growth for the year of over 7% reflected the strength of sterling, primarily against the US dollar. On a constant currency basis, which excludes the impact of currency movements, revenues were up over 8%.

On a like-for-like basis, excluding the impact of acquisitions and currency, revenues were up 5.3%, with gross margin up 5.9%. In the fourth quarter, like-for-like revenues were up 4.5%, down slightly on the third quarter, primarily due to stronger comparatives.

Despite the slowdown in economic activity resulting from the uncertainty triggered by the Eurozone crisis, 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 come to an end as some had predicted. Western-based multinational 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 US and Western Europe. This approach has the virtue of not increasing fixed costs, although we in the communications services business naturally regard brand spending as a fixed investment and not a discretionary cost. This positive double whammy has clearly benefited our industry over the last two years.

On a combined basis, over the last two years, 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.

All regions showed revenue growth with Latin America taking the lead

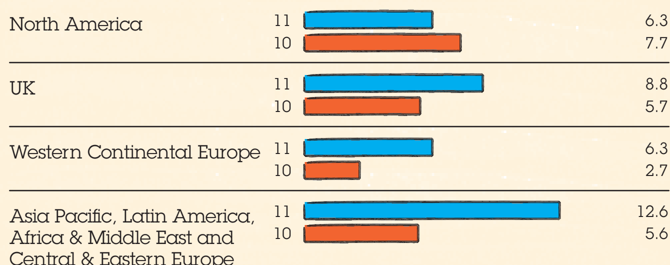
North America continued to show good growth throughout the year, with constant currency revenues up 6.3%. The UK, against market trends, showed even stronger growth, with constant currency revenues up almost 9% and gross margin even stronger up almost 11%, accelerating in the second half. Western Continental 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 and the Middle East and Central and Eastern Europe, revenue growth was strongest, up well over 12%, principally driven by Latin America and the BRICs[1] and Next 11[2] parts of Asia Pacific and the CIVETS[3] and the MIST[4]. 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 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%.

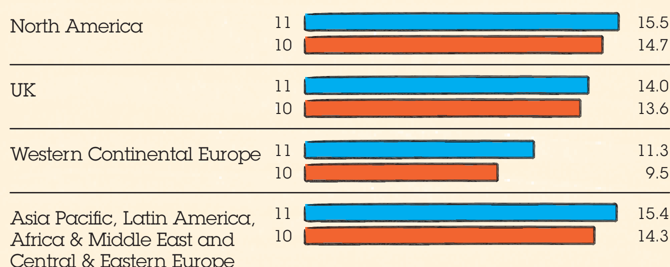
In 2011, over 29% of the Group's revenues came from Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe – over one percentage point more compared with the previous year and against the Group's strategic objective of 35-40% over the next three to four years. Markets outside North America now account for over 66% of our revenues, up from 62% five years ago.

[1] Brazil, Russia, India and China.
[2] Bangladesh, Egypt, Indonesia, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam (the Group has no operations in Iran).
[3] Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.
[4] Mexico, Indonesia, South Korea and Turkey.

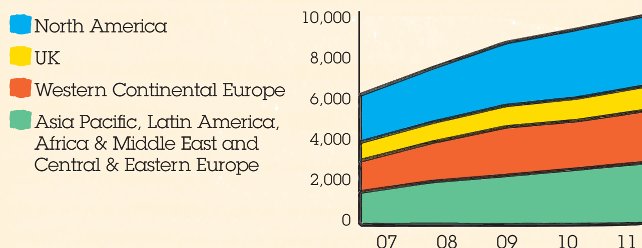
Constant currency[1] revenue growth by geography %



Headline PBIT[2] margins by geography %



Revenue by geography £m



[1] See definition on page 182.
[2] The calculation of headline PBIT is set out in note 31 of the financial statements.

Profits improved across all business sectors

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, Grey and United finished the year strongly, with particularly strong growth in the UK, Latin America and Africa.

Growth in the Group's Media Investment Management businesses was 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 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 Advertising, JWT, Y&R, Grey and United generated estimated net new billings of £909 million ($1.455 billion). GroupM (the Group's Media Investment Management arm, 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 revenues grew 1.7% on a constant currency basis, 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%. Headline PBIT margins improved 0.8 margin points to 10.5%, while reported gross margin margins (headline PBIT as a proportion of gross margin rather than revenue) improved 1.1 margin points to 14.3% – reflecting the benefit of continued cost focus. As a result, operating profit was up over 10% to £259 million.

The Group's Public Relations & Public Affairs businesses had another good year with full-year growth in constant currencies of 6.2%, with like-for-like revenues up 4.6%. Operating margins rose by 0.3 margin points to 16.1%.

At the Group's Branding & 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%. Over 30% of the Group's 2011 revenues came from direct, digital and interactive, up over one percentage point from the previous year.

Marketing services comprised almost 60% of our revenues in 2011, a similar proportion to 2010. We are no longer an advertising agency, we really are a communications services company.

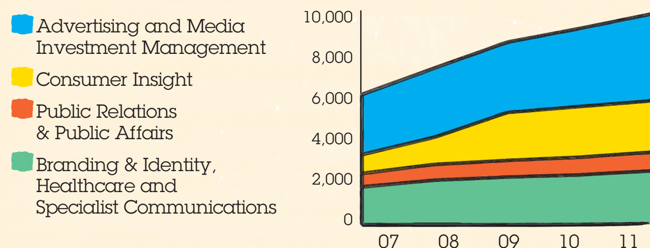
Constant currency[1] revenue growth by sector %

Sector	Year	%
Advertising and Media Investment Management	11	12.2
	10	7.0
Consumer Insight	11	1.7
	10	4.4
Public Relations & Public Affairs	11	6.2
	10	4.3
Branding & Identity, Healthcare and Specialist Communications	11	10.1
	10	5.0

Headline PBIT[2] margins by sector %

Sector	Year	%
Advertising and Media Investment Management	11	16.1
	10	15.3
Consumer Insight	11	10.5
	10	9.7
Public Relations & Public Affairs	11	16.1
	10	15.8
Branding & Identity, Healthcare and Specialist Communications	11	14.3
	10	12.4

Revenue by sector £m



[1] See definition on page 182.
[2] The calculation of headline PBIT is set out in note 31 of the financial statements.

Margins rise to equal historic highs

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

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.

On a like-for-like basis the average number of people in the Group increased by 4.6% in 2011. On the same basis, the number of people in the Group at 31 December 2011 was 4.3% higher than at the end of 2010. Also on a like-for-like basis, revenues increased by 5.3% and gross margin 5.9%. This is yet another demonstration of the fact that growth creates jobs. In the UK alone, more than 900 people were added on a like-for-like basis – up 9% as revenues and gross margins grew on the same basis by 6.7% and 8.6% respectively. The Group's employer social taxes in the UK rose 11.6% like-for-like.

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 almost 20% of headline operating profit before incentives and income from associates and represented close to maximum achievement of agreed performance targets. Our objective remains to pay out approximately 20% of operating profit before bonus and taxes at maximum and 15% at target and, in some cases, 25% at 'super-maximum'. 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. We should not be, and are not, hesitant to pay for success and be competitive internationally.

Before these incentive payments, headline PBIT margins rose by 0.8 margin points to 17.6%. 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.

Part of the Group's strategy is to continue to ensure that variable staff costs (incentives, freelance and consultants costs) are a significant proportion of total staff costs and revenue, as this provides flexibility to deal with volatility in revenues and recessions or slowdowns. In 2011, the ratio of variable staff costs to total staff costs was 12.2%, compared with 13.4% in 2010 and 9.7% in 2009. As a proportion of revenue, variable staff costs were 7.2% in 2011 compared with 7.8% in 2010 and 5.7% in 2009. The business is, therefore, well positioned if current market conditions change.

As a result of all this, headline PBIT rose over 16% to £1.429 billion from £1.229 billion, up over 17% in constant currencies. Reported PBIT rose over 22% to £1.258 billion from £1.028 billion, up over 23% in constant currencies.

Net finance costs (excluding the revaluation of financial instruments) were £200 million, up 2.5% from £195 million in 2010, reflecting lower average net debt, offset by higher funding costs. Headline profit before tax increased by almost 19% to £1.229 billion and reported profit before tax was up 18.5% to £1.008 billion, over £1 billion for the first time.

The Group's tax rate on headline profit before tax was 22.0%, the same as 2010, and on reported profit before tax was 9.1%, significantly less than the rate of 22.4% in 2010.

Net people additions (excluding associates)

Year to 31 December	Like-for-like 2011/2010	Like-for-like 2010/2009
China	1,008	498
UK	907	538
India	456	490
Brazil	310	315
US	233	1,876
Germany	193	(98)
Indonesia	148	116
Singapore	135	167
Thailand	123	52
Mexico	119	140
Other countries	1,100	393
Total	**4,732**	**4,487**

Group payroll taxes (excluding associates)

Year to 31 December 2011	Employers social taxes $m	Employees social taxes[1] $m	Social taxes per head[1] $000
US	174	131	12
France	111	52	45
UK	104	71	17
Germany	62	62	23
Brazil	47	10	17
Spain	39	7	14
Italy	38	12	24
Sweden	20	4	28
China	19	6	4
Australia	12	3	8
Other countries	157	89	5
Total	**783**	**447**	**11**

[1] Estimate.

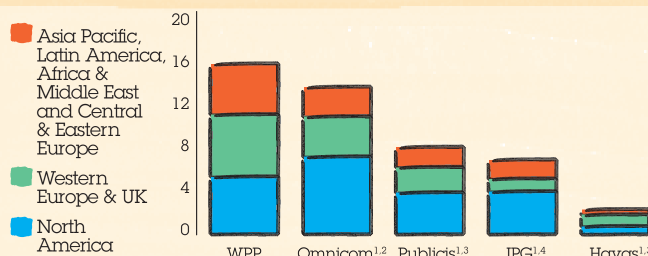
The difference was primarily due to the exceptional release of prior year corporate tax provisions following the resolution of a number of open tax matters, together with deferred tax credits in relation to amortisation of acquired intangible assets.

Diluted headline earnings per share rose over 19% to 67.7p and diluted reported earnings per share increased over 40% to 64.5p. Including the exceptional tax credit, diluted headline earnings per share rose over 33% to 75.6p. No severance or integration or acquisition expenses have been excluded in arriving at headline earnings which is, unusually, not competitive practice.

2011 digital revenue[1] vs peers $bn

[1] Peer digital revenue $bn according to *Advertising Age* %s applied to FY US$ revenue.

2011 revenue by geography vs peers $bn



[1] Sourced from 2011 company presentations. Central & Eastern Europe estimated as 3% of revenue.
[2] Assumed non-Euro countries in Europe are 3% of revenue and Canada is 1.5% of revenue.
[3] Assumed $1=€0.71 based on the average for 2011.
[4] Assumed Canada is 1.5% of revenue.

The outlook for 2012

2012 may well have a pattern similar to 2011. Forecasts of worldwide real GDP growth still hover around 3.5% with inflation of 2% giving nominal GDP growth of 5.5%. 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 election in November should underpin industry growth by 1% alone this year. Some commentators, including our own, estimate $7-8 billion of political spending in the US alone.

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 (in the first three months of 2012, China revenues are up 16% like-for-like) and believe the worst case is a soft landing, particularly following the strategies laid out in the 12th Five Year Plan – stressing consumption, social security and service industries.

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'. New markets, new media and consumer insight account respectively for 29%, 30% and 25% of the Group's revenues of over $16 billion, demonstrating the success of our strategic focus.

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. Additionally, as noted earlier, flexible staff costs (including incentives, freelance and consultants) have returned close to historic highs of around 7% of revenues, giving some protection in case market conditions change.

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 US and Western Europe. Our 2012 budgets show like-for-like revenue and gross margin growth of around 4% and a target operating margin improvement of 0.5 margin points.

Incentive plans for 2012 will continue to emphasise revenue (particularly in the mature markets of our custom consumer insight businesses) and operating profit growth in conjunction with operating margin improvement, although objectives will continue to include

qualitative Group objectives, including coordination and co-operation, talent management and succession planning.

At the time of writing, we have revenue and profit data for the first three months of 2012. The Group has started the year well, with like-for-like revenue and gross margin for the first three months both up 4%. Geographically, we continue to see strong growth in Asia Pacific and Latin America and modestly better growth in the mature Western and Continental Europe markets. By sector, Advertising and Media Investment Management remains strong and Consumer Insight is showing an improvement in growth compared with the fourth quarter of 2011. These trends are in line with our budgets, which also indicate a broadly steady rate of growth throughout the year, albeit with the usual conservatism in quarter four. Operating profits were above budget.

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/or Senate. Legislative gridlock may continue at a time when 'kicking the can' down the road may no longer be viable. Some hope that a re-elected President becomes more concerned with his legacy.

The longer term

In the long term, the outlook for the communications services industry appears favourable.

Globalisation, overcapacity of production in most sectors and the shortage of human capital, the developments in new technologies and media, the growth in importance of internal communications, the need to influence retail distribution, brand emphasis on health and wellness, the growth in government spending and the new focus on corporate sustainability issues such as climate change, underpin the need for our clients to continue to differentiate their products and services both tangibly and intangibly.

Moreover, the continuing growth of the BRICs, Next 11 and other faster-growing geographical markets will add significant opportunities in Asia Pacific, Latin America, Africa and the Middle East and Central and Eastern Europe – along with the growth of 'new-BRICs' such as Vietnam, Pakistan, Indonesia, Bangladesh, Colombia and Mexico and even Myanmar. Advertising and marketing services expenditure as a proportion of GDP has started to resume its growth, although in these relatively low-inflationary times, where our clients have limited pricing power, we remain committed to working with our clients and their procurement departments to improve the effectiveness and efficiency of their spending and investments.

Given these short-term and long-term trends, your Company believes it has the correct strategic priorities – new markets, new media, consumer insight and 'horizontality' – and a focus on not only strategic planning, creative execution and distribution, but also on both the application of technology and analysis of data, to the benefit of our clients and people.

Including associates, the Group currently employs over 158,000 full-time people (up 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 multinational clients in three or more disciplines. More than 470 clients are served in four disciplines and these clients account for almost 57% of Group revenues. This reflects the increasing opportunities for coordination and co-operation or 'horizontality' between activities, both nationally and internationally and at a client and country level. The Group also works with almost 360 clients in six or more countries.

These statistics reflect the increasing opportunities for developing client relationships between activities nationally, internationally and by function. We estimate that well over 35% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies. The Group continues to improve co-operation and coordination 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. The Group continues to lead the industry in coordinating investment geographically and functionally through parent company initiatives and winning Group pitches.

Our key priorities

Our reason for being, the justification for WPP's existence, continues to be to add value to our clients' businesses and our people's careers. Our goal remains to be the world's most successful provider of communications services to multinational and local companies, not just the largest.

To that end, we have three key strategic priorities.

1 First, with the financial crisis of 2008 now hopefully behind us, and with margins now equal to historic pro-forma highs, our immediate goal is to deliver annual EPS growth of 10-15% through organic revenue growth of up to 5%, margin improvement of 0.5 margin points or more, and productive use of our cash flow. Compared with the last downturn, our people are stronger: they are better resourced, better motivated and incentivised than when we exited the last recessions in the early 1990s and 2000s. The Company is also more profitable, more liquid and better structured. In the most recent economic cycle, margins peaked at 15.0% (pre-TNS) and bottomed at 11.7%, as opposed to 10.5% and 5.6% in the early 1990s.

2 Second, in the medium term, to build upon the successful base we have established whilst integrating our most recent acquisitions effectively. At TNS the integration has gone well, particularly from a margin and operating profit point of view, and the focus has now to be on revenue and gross margin growth, capturing greater market share – an opportunity heightened by the recent Ipsos/Synovate takeover.

3 Our third priority, in the long term or over the next five to 10 years, is to:

- Increase the combined geographic share of revenues from the faster-growing markets of Asia Pacific, Latin America, Africa and the Middle East, and Central and Eastern Europe, from over 29% to 35-40%.
- Increase the share of revenues of new media from 30% to 35-40%.
- Increase the share of more measurable marketing services – such as Consumer Insight and direct, digital and interactive – to be more than 50% of revenues, with a focus on digital and consumer insight, data analytics and the application of new technology.

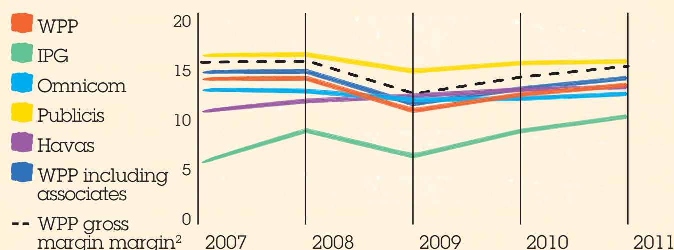
Our six specific objectives

Here are six objectives which represent our key performance indicators (KPIs). For an assessment of how we performed against them in 2011, read on.

1. **Continue to raise operating margins to the levels of the best-performing competition.**
2. **Continue to increase flexibility in the cost structure.**
3. **Improve total share owner return and return on capital.**
4. **Continue to enhance the value added by the parent company.**
5. **Continue to place greater emphasis on revenue growth.**
6. **Improve still further the quality of our creative output.**

1 First, to continue to raise operating margins to the levels of the best-performing competition. In 2011, we achieved a margin of 14.3%, equal to our historic pro-forma high. We continue to believe a margin of 18.3% is a tough, but realistic, objective given that our best-performing companies in each services sector have already demonstrated they can perform at a combined Group margin of 17%. It may well be that gross margin margin is a more accurate competitive comparison and we achieved 15.5% in 2011, significantly up on 2010 and at the top levels of industry performance.

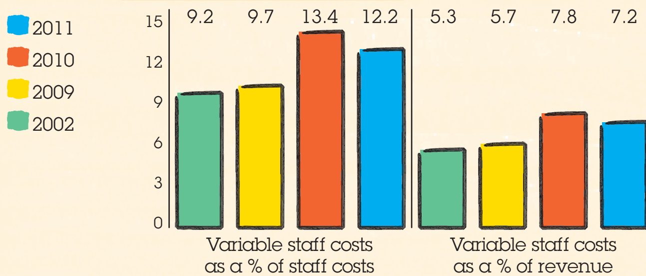
Headline operating margins[1] vs peers %



[1] Based on headline operating profit as defined on page 183, excluding share of results of associates, and sourced from relevant public filings, adjusted to a comparable basis to WPP.
[2] Gross margin margin is defined as headline PBIT as a proportion of gross margin.

2 Second, to continue to increase flexibility in the cost structure. In 2011, flexible staff costs (including incentives, freelance and consultants) returned close to historical highs of around 7% of revenues and continue to position the Group extremely well, if current market conditions change.

Change in variable costs %



3 Third, to improve total share owner return by maximising the return on investment on the Company's substantial free cash flow of over £1.0 billion (or around $1.6 billion).

There are broadly three alternative uses of funds:

- Capital expenditure, which usually approximates the depreciation cost. Pressure here has eased as technology pricing has fallen, although we have increased investment in our digital and technology-based service offering, in line with our strategic goals. We have also invested significantly more in real estate following lease renewals to secure greater efficiencies, although we have an opportunity to sell a freehold property for a significant capital gain.
- Mergers and acquisitions, which have historically taken the lion's share of free cash flow. Here we have raised the hurdle rate on capital employed so that our return on capital may be increased. 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 US, where prices seem to have got ahead of themselves because of pressure on our competitors to catch up. This is clearly reflected in some of the operational and governance issues that are starting to surface elsewhere at our competitors, particularly in fast-growing markets like China.

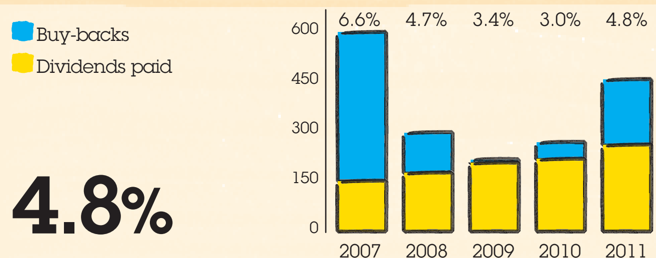
Our acquisition focus in 2011 was again on the triple opportunities of faster-growing geographic markets, new media and consumer insight, including data analytics and the application of technology, totally consistent with our strategic priorities in the areas of geography, new communication services and measurability. In 2011, the Group spent £381 million on initial acquisition payments, net of cash acquired and disposal proceeds. Net acquisition spend is currently targeted at around £300 million per annum and we will continue to seize opportunities in line with our strategy.

- Dividends or share buy-backs. We have increasingly come to the view, based on co-operative research with leading investment institutions, 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.

Following the strong first-half results in 2011, your Board raised the dividend by 25%, around five percentage points faster than the growth in diluted headline earnings per share, a pay-out ratio in the first half of 33%. For the full year, diluted headline 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%, five percentage points higher than the growth in diluted headline earnings per share (including the exceptional tax credit) and 19 percentage points higher than the growth in diluted headline 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% as soon as possible compared to the 2010 ratio of 31%. In 2011, it reached 36% on diluted headline earnings per share (excluding the exceptional tax credit) and 33% on diluted headline earnings per share (including the exceptional tax credit). Dividends to be paid in respect of 2011 will total over £300 million for the year.

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. Share buy-backs in 2011 cost £182 million, representing 2.1% of issued share capital.

Distributions to share owners[1] £m



[1] Sum of share buy-backs and dividends paid divided by average shares in issue for the relevant period, as a % of the average share price for the relevant period.

Fourth, we will continue to enhance the value added by the parent company and build unique integrated marketing approaches for clients. WPP is not just a holding company focused on planning, budgeting, reporting and financial issues, but a parent company that can add value to our clients and our people in the areas of human resources, property, procurement, information technology and practice development, including sustainability. We will continue to do this through a limited group of 400 or so people at the centre in Dublin, London, New York, Tokyo, Hong Kong, Shanghai and São Paulo. This does not mean that we seek to diminish the strength of our operating brands, but rather to learn from one another. Our objective is to maximise the added value for our clients in their businesses and our people in their careers.

Many of our initiatives are possible because of the scale on which we now operate. In the optimum use of property, in information technology and in procurement generally, we are able to achieve efficiencies that would be beyond the reach of any individual operating company.

But it is also clear that there is an increasing requirement for the centre to complement the operating companies in professional development and client coordination. It is a relatively recent development for certain multinational marketing companies, when looking to satisfy their global communications needs, to make their initial approach not to operating companies, but directly to holding or parent companies.

Such assignments present major, and increasingly frequent, opportunities for the few groups of our size. It is absolutely essential that we have the professional resources and the practice development capability to serve such clients comprehensively, actively and creatively. Initiatives involving some of the world's largest marketers continue to gain momentum. The world's largest advertiser is itself integrating its efforts around brands, in the areas of advertising, media investment management, market research, packaging design and public relations. Our largest client is seeking a seamless model, effectively a one-client agency within our Group. All our clients, whether global, multinational or local, continue to focus on the quality of our thinking, coordination of communications and price. In response, we focus on talent, structure and incentives.

Managing talent

Talent and its management therefore remain the lynchpin of our reason for existence: that is what our clients pay us for. Development of our people and the way we manage that talent is a critical determinant of performance and on that critical dimension, we continue to make significant progress.

In creating highly-competitive incentives with extremely attractive working environments, we increasingly differentiate ourselves from our competitors and improve the attractiveness of WPP companies as destinations for talent. Our quarterly reviews with the operating companies have been structured to give more time and attention to talent and to clients. Our recruiting efforts throughout 2011 were especially fruitful as we successfully targeted and recruited top talent within and beyond our industry, often competing with investment banking, management consulting, new media and private equity offers. The war for talent is fierce and will intensify further, and there is more to be done.

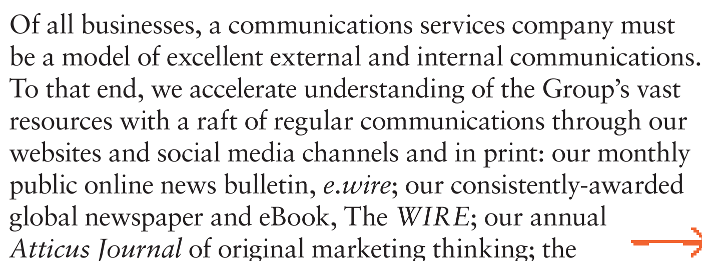
The blueprint for our executive development curriculum has been completed, and our flagship client leadership training program, *Maestro*, is being continuously developed. The parent company and each of our operating companies installed its own approach to performance assessment and succession planning, aimed at developing the careers of their people, improving the quality of feedback, coaching and mentoring they receive and providing for orderly succession. We have launched a senior management mentoring and development program specifically for women, run by Charlotte Beers and called 'The X Factor'.

In 2011, your Company teamed up with the Shanghai Art & Design Academy (SADA) to establish the WPP School of Marketing and Communications. This jointly run school offers China's first professional marketing and communications three-year diploma program. After 17 years, the WPP Marketing Fellowship program remains (sadly) the only multi-disciplinary and multi-geographical recruitment and training initiative in the industry.

We continued to scrutinise and modify our compensation practices, both to offer competitive and appropriately-based rewards to our people and to attract outstanding talent from elsewhere. This is a key strategic priority for us. Our competition is, sometimes, not so rigorous in evaluating and rewarding performance – for example, taking advantage of sharp falls in share prices to re-price or issue options or giving limited disclosure to investors of compensation plan details. A failure of external, as well as internal, audiences to understand the importance of globally competitive incentive-based compensation will undermine the Company's leadership position. After all, we invest almost $10 billion a year in human capital, as opposed to only $400 million in fixed assets – 25 times more.

Communications

Of all businesses, a communications services company must be a model of excellent external and internal communications. To that end, we accelerate understanding of the Group's vast resources with a raft of regular communications through our websites and social media channels and in print: our monthly public online news bulletin, *e.wire*; our consistently-awarded global newspaper and eBook, The *WIRE*; our annual *Atticus Journal* of original marketing thinking; the



WPP *Reading Room*, an extensive online library of think pieces (both public and original) from WPP professionals worldwide; our online *Fact Files* profiling Group resources/ companies/ products; regular communication on Group initiatives such as the WPP Worldwide Partnership Program and the WPP Marketing Fellowship Program; our annual Sustainability Report and this consistently award-winning Annual Report, both in print and online.

Property management

In 2011, we were able to reduce our core property portfolio. Although square footage rose by 1.7% from 22.8 million sq ft to 23.2 million sq ft at the end of the year, this increase was less than the 3.1% of revenue growth attributable to acquisitions and considerably less than constant currency revenue growth of 8.4%, meaning our core portfolio (excluding the impact of acquisitions) reduced. Consequently, average square foot per head dropped to 211 sq ft, well ahead of the target of 220 sq ft we set ourselves.

As a result of this improvement in space utilisation the establishment cost-to-revenue ratio dropped to 6.7%, ahead of our long-term 7% run rate and in spite of a 3% increase in cost per square foot. For 2012 we will continue our focus on the key drivers of space per head, particularly in the US where it runs above our average, and the cost per square foot on our lease renewals, particularly in the faster-growing markets where the rental markets are rising fastest. Our aim is to maintain the establishment cost-to-revenue ratio at 7% or even reduce it.

Procurement

We continue to target clear sector leadership in procurement, through continuous investment in people, processes and technology. WPP has professional procurement resources based in 14 countries.

Our goal is to make savings and add value across all of WPP's bought-out spend, with particular emphasis on opportunities to leverage our global, regional or local scale to the benefit of our clients and our operating companies.

Information technology

In IT we continue to consolidate our core technology infrastructure with the objectives of reducing cost and improving quality. This enables our operating companies to concentrate their efforts on client- related developments and other internal business-focused applications.

The convergence of mobile, voice and data communications has allowed us to take advantage of new offerings in the telecommunications sector to increase efficiencies and to provide enhanced support to our increasingly mobile workforce.

Practice development

In practice development we continue to develop horizontal initiatives in a focused set of high-potential areas across our vertical operating brands: in media investment management, healthcare, corporate sustainability, government, new technologies, new faster-growing markets, retailing, shopper marketing, internal communications, financial services and media and entertainment. Specifically, we continue to invest in sharing insights and developing initiatives through WPP Digital (in digital marketing and media) and The Store (in distribution and retail).

In key geographic markets we are increasingly coordinating our activities through WPP Country Managers. We continue to believe that increasing coordination is required between our brands at the country and global levels, as the arguments for investment in regional management become weaker. In addition, we have increased the number of WPP Global Client Leaders to coordinate our efforts on behalf of clients and to ensure they receive maximum benefit from their relationships with WPP operating brands. Over 30 global client leaders have been appointed so far.

Furthermore, we continue to encourage internal strategic alliances and promote co-operation. Practice development initiatives have therefore been reinforced in such areas as healthcare, retail, internal communications, corporate sustainability and media and entertainment. This has been especially important in developing our portfolio of direct investments in new media under WPP Digital and where our investments are working with our agencies and people to bring new technology capabilities and understanding to our clients. All these initiatives are designed to ensure that we, the parent company, really do (as well as being perceived to) inspire, motivate, coach, encourage, support and incentivise our operating companies to achieve their strategic and operational goals.

Sustainability

The Group's commitment to, and investment in, sustainability initiatives supports major business wins. We estimate that clients who engaged with WPP on our approach to sustainability were worth at least $1 billion to the Group in 2011. See pages 117 to 127 for more on sustainability at WPP.

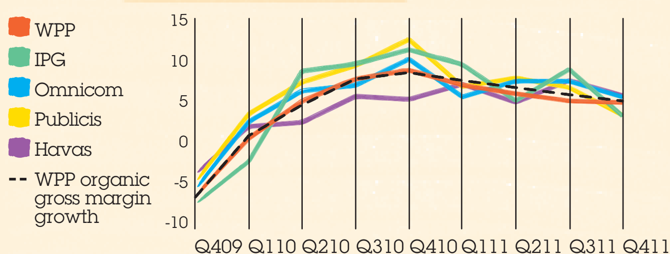
Sustainability performance summary

	2011	2010	Change %
Value of client business supported by our sustainability credentials*	$1bn	–	–
Gender diversity (% of women total employees)	54%	54%	0%
Gender diversity (% of women Board directors/executive leaders)	31%	31%	0%
Investment in training and welfare	£58.3m	£48.9m	+19%
Carbon footprint (tonnes of CO_2 per person)	2.44	2.51	-3%
Social investment (£ million)	£15.3m	£14.3m	+7%

* Value of clients who requested information on our sustainability policies and performance through their supplier management process.

5 Fifth, to continue to place greater emphasis on revenue growth. One legitimate criticism of our performance against the best-performing competition is our comparative level of organic revenue growth, although the methods used to calculate rates of organic growth 'vary' to say the least and we may have put too much emphasis on margin improvement. In 2011, our like-for-like revenue growth of 5.3% was strong but not as strong as others, although quarter-four growth of 4.5% was in the middle of the pack. On a gross margin basis, the Group's like-for-like growth of 5.9% was in line with our leading competitors. Our margin performance is consistently at the top end of the pack.

Organic revenue growth vs peers %



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.

Estimated net new business billings of £3.2 billion ($5.2 billion) were won in 2011, up over 7% on 2010, placing the Group first or second in all leading net new business tables.

Our practice development activities are also aimed at helping us position our portfolio in the faster-growing functional and geographic areas. In 2011, 24 acquisitions and investments were in new markets, 32 in new media and eight in Consumer Insight, including data analytics and the application of technology, with the balance of seven driven by individual client or agency needs.

Specifically, in 2011, acquisitions and increased equity stakes were completed in Advertising and Media Investment Management in the US, France, Germany, the Netherlands, Bahrain, South Africa, Brazil, Chile, China, India, South Korea and the Philippines; in Consumer Insight in the US, Ireland, Germany, Poland, Russia, Kenya, Japan and Sri Lanka; in Public Relations & Public Affairs in the US, the UK, South Africa and Singapore; in direct, digital and interactive in the US, the UK, Austria, Brazil, China, the Philippines and Singapore; and in Specialist Communications in the US and Kenya.

So far in 2012, the Group has made acquisitions or increased equity interests in Advertising and Media Investment Management in Israel, China, Singapore and Indonesia; in Consumer Insight in China and New Zealand; in Public Relations & Public Affairs in the US, Finland, Russia and Hong Kong; and in direct, digital and interactive in Russia and Australia. These acquisitions continue to move us forward to our previously described strategic priorities; expanding the share of revenues of our businesses in Asia Pacific, Latin America, Africa and the Middle East, and Central and Eastern Europe to 35-40%; in new media to 35-40%; and in Consumer Insight, direct, digital and interactive, to over one-half.

We intend to expand our strong networks – Ogilvy & Mather Advertising, JWT, Y&R, Grey, United, bates, Mindshare, MEC, MediaCom, Maxus, tenthavenue, TNS, Millward Brown, Kantar Media, Kantar Health, Kantar Retail, Kantar Worldpanel, Hill+Knowlton Strategies, Ogilvy Public Relations, Burson-Marsteller, Cohn & Wolfe, OgilvyOne Worldwide, Wunderman, OgilvyAction, G2, Possible Worldwide, 24/7 Media, Ogilvy CommonHealth Worldwide, Sudler & Hennessey, ghg, The Brand Union, Landor and FITCH – in high-growth markets or where their market share is insufficient.

We will also enhance our leadership position in Consumer Insight by further development of our key brands with particular emphasis on North America, Asia Pacific, Latin America and Continental and Eastern Europe. We will continue our growth of research panels and have established a Kantar-wide operational capability. We will reinforce our growing position in media research through Kantar Media, which includes our investments in television audience research through the former TNS Media Intelligence and TNS Media Research, and IBOPE and Marktest, which, combined, is the market leader outside North America. We now measure television and/or internet audiences in 47 countries around the world.

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In addition, we intend to reinforce our worldwide strength in direct and interactive marketing and research through our traditional channels such as OgilvyOne, Wunderman, G2, Blanc & Otus and Lightspeed. We will also invest directly in new channels through start-ups, particularly as US and French valuations in search, for example, are still prohibitive. Other opportunities will be sought to enhance our online capabilities.

Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail and interactive and to identify new high-growth areas.

Creativity remains paramount

6 Sixth, to improve still further the quality of creative work throughout the Group. Despite the growing importance of co-ordinated communications and price effectiveness, the quality of the work remains and will remain paramount. If you drew a graph plotting creative awards (as a proxy for creativity) against margins for any group of agencies, there would be a very strong correlation. The more awards, the stronger the margins. The client's procurement department fades into the background when the work is strong. Of the three things we do – strategic thinking, creative execution and co-ordination – creative execution is undoubtedly the most important, and that means creativity in its broadest sense.

Clients look for creative thinking and output not just from advertising agencies, public relations and design companies, but also from our media companies and our research companies. Millward Brown remains arguably one of our most creative brands. Witness the BrandZ™ Top 100 Most Powerful Brands study published annually with the *Financial Times* and its study of the BrandZ™ Top 50 Most Valuable Chinese Brands, together with the just-launched BrandZ™ Top 50 Most Valuable Latin American Brands.

We intend to achieve this objective by stepping up our training and development programs; by recruiting the finest external talent; by celebrating and rewarding outstanding creative success tangibly and intangibly; by acquiring strong creative companies; and by encouraging, monitoring and promoting our companies' achievements in winning creative awards.

In pursuing these aims, the Group is led by John O'Keeffe, WPP's worldwide creative director. Under John's guidance, gratifying and discernible progress continues.

Your Company was named Holding Company of the Year at the 2011 Cannes Lions International Festival of Creativity, the world's premier showcase for excellence in communications. This marks the first time the Cannes Lions have measured and recognised creative performance at the parent company level. Based on the collective number of Cannes Lions awarded to WPP agencies for creative excellence, WPP accumulated 1,219 points in the competition, followed by Omnicom second with 1,152 points and Publicis with 744 points. Awards were won by WPP agencies from more than 30 countries across all continents, including most notably a prestigious Grand Prix awarded to JWT Shanghai, the first time a Chinese agency has won this top prize. Three years earlier, JWT India was the first agency to win a Cannes Grand Prix for India.

Our performance in *The Gunn Report*, even on an accurately-calculated weighted basis, is as strong, with GroupM topping the Media Holding Company of the Year tables and Mindshare the fastest growing of the two big agencies at the top of the report in terms of media creativity. 2011 also saw the fifth annual WPPED Cream awards, our internal award program for outstanding work across the Group.

We are committed to achieving our objectives in the right way, as a company that recognises our responsibilities to clients, our people and the world at large. Sustainability at WPP encompasses our principles for marketing ethics, privacy and data protection, our leading employment practices, our commitment to minimise our environmental footprint and the contribution we make to communities through pro bono work and charitable giving. This is not altruism or charity, it is good business when, like us, you are focused on long-term total share owner return. Our strong track record in this area enables us to take advantage of new commercial opportunities as sustainability continues to grow in importance for consumers, governments, brands and businesses in Western and fast-growing economies. Our goal is for WPP to be a centre of excellence for sustainability communication, giving our clients the best advice and enhancing consumers' understanding of sustainability issues.

A summary of the Group's approach to sustainability can be found on pages 117 to 127. Please also see our annual Sustainability Report on the work our clients and our people do in these increasingly important areas.

Future challenges

A colossal amount remains to be done – challenging our clients, and therefore us. It seems certain that once these objectives are achieved, they will be replaced by new ones. As companies grow in size, most chairmen and CEOs become concerned that their organisations may become flabby, slow to respond, bureaucratic and sclerotic. Any sensible business leader aggressively resists this phenomenon; we all seek the benefits of size and scale without sacrificing the suppleness and energy of a smaller firm. And, for the first time, new technologies now make this possible on a global platform. WPP wants the scale and resources of the largest firm together with the heart and mind of a small one.

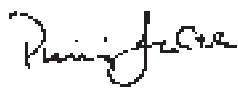
And finally...

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.

Philip Lader
Chairman



Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Howard Paster (1944-2011)

When Howard Paster died in August of last year, his army of friends and colleagues shared two dominant emotions: a huge sense of loss; and infinite gratitude for having known him.

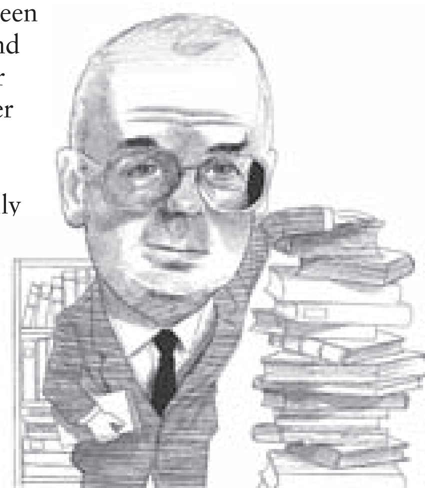
Bill and Hillary Clinton were among them. He'd worked closely with both. "We will remember Howard for his passion and candor and his dedication to public service," they wrote.

Howard Paster had been part of WPP since 1989 – for the last decade with responsibility for all the Group's public relations and public affairs interests, and for much of that time as a member of the WPP Board of Directors. Extensive though that responsibility was, Howard's influence was greater still. The multitude of tributes that followed his death painted a remarkably consistent picture of the qualities with which he was blessed and which he so liberally shared.

Here is just a fraction of those tributes.

"A good man." "One of the finest men I've ever met." "His integrity, compassion and deep love of his family were inspirations to all of us." "Always the person to turn to for advice." "We will all miss Howard's knowledge, great wisdom and kindness" "A compassionate man." "He was as insightful a business guy and generous a human being as I have known." "Wise, kind, expert, polite and always helpful." "A wonderful man." "A great guy and a wise counsellor." "We've truly lost a remarkable man, but the inspiration of his faith, optimism and perseverance will live in our hearts forever."

"Howard has been our colleague, friend and trusted advisor for almost a quarter of a century", said Martin Sorrell at that time. "He really is irreplaceable."



As we extend our sympathy to Howard Paster's family, we thank them profoundly for having shared him with us.