First, to continue to improve operating margins. In 2012, we achieved a margin of 14.8%, a new high. We continue to believe a margin of around 18% or more 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 headline PBIT as a percentage of gross margin is a more accurate competitive comparison and we achieved 16.1% in 2012, the highest level in the industry.

The Group has embarked on a number of programs to improve operational effectiveness including shared service centres and offshoring certain tasks away from high-cost markets. We are consolidating IT infrastructure and centralising systems development and applications to create efficiencies and focus investment. These programs are projected to deliver a 1.0 margin point benefit over the course of the next three to five years.

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 2012, read on.

1. Continue to improve operating margins.
2. Increase flexibility in the cost structure.
3. Use free cash flow to enhance share owner value and improve return on capital.
4. Continue to develop the value added by the parent company.
5. Emphasise revenue growth more as margins improve.
6. Improve still further the creative capabilities and reputation of all our businesses.

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Headline operating margins1 vs peers %

1 Based on headline operating profit as defined on page 227, 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.
Second, to increase flexibility in the cost structure. In 2012, flexible staff costs (including incentives, freelance and consultants) remained close to historical highs of around 7% of revenues and continue to position the Group extremely well, if current market conditions change.

Third, to enhance share owner value and maximise the return on investment on the Company’s substantial free cash flow of almost £1.1 billion (or over $1.7 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. The Group has actively assessed its IT infrastructure in 2012 and consequently accelerated its overhaul of centralised IT services, although the pace of process simplification, offshoring and outsourcing needs to be quickened. We have been too slow. We have also invested significantly more in real estate following lease renewals to secure greater efficiencies. A large part of the proceeds from the sale of the freehold of 285 Madison Avenue in New York have been reinvested in relocating the headquarters of Young & Rubicam Inc. to a more modern, efficient facility at 3 Columbus Circle.

- 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 in the industry, particularly in fast-growing markets like China and Brazil.

Our acquisition focus in 2012 was again on the triple play of faster-growing geographic markets, new media and consumer insight, including the application of technology and big data, totally consistent with our strategic priorities in the areas of geography, new communication services and measurability. In 2012, the Group spent £500 million on initial acquisition payments, net of cash acquired and disposal proceeds. Net acquisition spend is currently targeted at around £300 to £400 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 2012, your Board raised the interim dividend by 18%, around 5.0 percentage points higher than the growth in headline

**Distributions to share owners**

<table>
<thead>
<tr>
<th>Year</th>
<th>Buy-backs</th>
<th>Dividends paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.7%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>3.4%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>4.5%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>4.3%</td>
<td></td>
</tr>
</tbody>
</table>

*1 Sum of share buy-backs and dividends paid divided by average shares in issue for the relevant period, as a percentage of the average share price for the relevant period.*
diluted earnings per share, a pay-out ratio in the first half of 34%. For the full year, headline diluted earnings per share rose by 8.4% and the final dividend has been increased by 15%, bringing the total dividend for the year to 28.51p per share, up 15.9%, 7.5 percentage points higher than the growth in headline diluted earnings per share. With a dividend pay-out ratio of 39% in 2012, and having largely achieved the objective of a 40% pay-out ratio set in 2010, your Board will give consideration to the merits of increasing the pay-out ratio further, in the range of 45-50%. Dividends paid in respect of 2012 will total almost £360 million for the year.

On 2 January 2013, the Scheme of Arrangement between WPP 2012 Limited (formerly WPP plc) and its share owners, in relation to the introduction of a new Jersey incorporated and UK tax resident parent company, became effective and new WPP, which has adopted the same name, WPP plc, became the new parent company of the WPP Group. As a consequence of the Group returning its tax residence to the UK, the dividend access plan and scrip dividend have been terminated.

Share buy-backs will continue to be targeted to absorb any share dilution from 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 2012 cost £135 million, representing 1.3% of issued share capital.

Fourth, we will continue to develop 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, IT and practice development, including sustainability. We will continue to do this through a limited group of 400 or so people at the centre in 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 is the priority

Talent and its management therefore remain at the heart of our reason to be: 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 developing highly competitive incentives combined 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 2012 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, now in its 10th year, is being continuously developed. The parent company and each of our operating companies have installed their 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. A senior management mentoring and development program, ‘The X Factor’, run by Charlotte Beers, the former chairman and CEO of Ogilvy & Mather and chairman of JWT, continues to prepare women for the next level of leadership in the Group.

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. This initiative continued in 2012, with the second intake of 88 students. After 18 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 $500 million in fixed assets – 20 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, our 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 award-winning Sustainability Report and this consistently award-winning Annual Report, both in print and online.

As part of the increased focus on ‘horizontality’, WPP’s award-winning public website is being refreshed to highlight the scope and scale of the Group as well as enhancing the overall user experience. The Group intranet is being redeveloped to facilitate further internal strategic alliances and cross-company co-operation.
**Property management**

In 2012 we again reduced our core property portfolio. While overall square footage rose by 1.4% from 23.2 million sq ft to 23.5 million sq ft, this was less than half the 2.9% increase in revenue attributable to acquisitions, and considerably less than the 5.8% growth in constant currency revenues.

Average square foot per head dropped from 211 sq ft to 207 sq ft, but this was partly offset by a 1.6% increase in cost per square foot to £29.50. As a result, we held the establishment cost-to-revenue ratio at 6.7%, flat with prior year and ahead of our long term 7% run-rate target.

Our aim for 2013 is to improve on this level in spite of sharp increases in Asia property costs and the impending end of a number of significant below market leases in the region.

**Procurement**

In procurement, our goal is to make savings and add value across all of WPP’s external spend, with particular emphasis on opportunities to leverage our scale to the benefit of our clients and our companies.

In 2012, we completed a three-year implementation of a procurement spend analytics system which now provides supplier-level visibility of close to $5 billion of external spend, across our eight largest markets – the US, the UK, Germany, France, Spain, China, India and Brazil. Access to data of this detail is now driving supplier cost reduction and value improvement targets across the Group. At least one further market will be added in 2013, and others in subsequent years.

As a consequence of better data, 2012 also saw the re-organisation of procurement into four spend teams with global/regional reach.

For 2013, we will continue our focus on the key drivers of supplier cost. Specifically for technology and indirect procurement, our goal is to have a minimum of 50% of supplier spend in each major country, covered by WPP preferred suppliers and contracts, and for these preferred suppliers to work with us to deliver year-on-year value improvement. Specific targets will be set for the newest areas of procurement focus, following detailed opportunity analysis which began in 2012.

**Information technology**

In 2012 we initiated a major review of the Group’s IT operations to make them better co-ordinated, more responsive to changing needs (both internal and external) and more cost-effective. Core to this strategy will be greater centralisation and consolidation of the Group’s IT infrastructure and services, with the objective of delivering savings of around 10% (or £50 million) on current delivery cost. We estimate implementation will take two to three years and we have engaged PwC to assist with the project.

As mentioned previously, these initiatives were accelerated in the fourth quarter of 2012 following the devastation caused by Hurricane Sandy. The significant loss of power in New York and subsequent flooding had some impact on the operational effectiveness of certain of the Group’s IT infrastructure and back-office systems, making the overhaul of our centralised IT services all the more important.

Additionally, the rapid and continuing 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, sustainability, government, new technologies, new 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, largely because of improved technology. In addition, we have increased the number of WPP Global Client Leaders to co-ordinate our efforts on behalf of clients and to ensure they receive maximum benefit from their relationships with WPP operating brands.

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.

Fifth, to emphasise revenue growth more as margins improve. 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 2012, our like-for-like revenue growth of 2.9% was at the leading end of our competitors, although not in the lead. Our margin performance is consistently at the top end of the pack. We continue to believe increasingly that profitable growth is preferable to sacrificing margins.

Estimated net new business billings of £3.9 billion ($6.2 billion) were won in 2012, up almost 21% on 2011, 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. These wins continued into the second half of the year and the first three months of 2013 with several very large industry-leading advertising, digital and media assignments, the full benefit of which will be seen in Group revenues in 2013. There have been several recent significant gains, for example, particularly in the pharmaceutical and healthcare industry.

Our practice development activities are also aimed at helping us position our portfolio in the faster-growing functional and geographic areas.

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1 Peer data sourced from company presentations.
The Group completed 65 acquisitions in 2012; 28 acquisitions and investments were classified in new markets (of which 20 were in new media), 27 in Consumer Insight, including data analytics and the application of technology, with the balance of 10 driven by individual client or agency needs.

Specifically, in 2012 acquisitions and increased equity stakes were completed in Advertising and Media Investment Management in the US, Germany, the Netherlands, the Slovak Republic, Turkey, Israel, Jordan, Brazil, Colombia, Mexico, Australia, China, South Korea, Thailand and Vietnam; in Consumer Insight in the US, France, Germany, Turkey, UAE, Chile, China and Pakistan; in Public Relations & Public Affairs in the US, Canada, the UK, Denmark, Finland, France, Russia and Australia; in direct, digital and interactive in the US, the UK, Germany, Hungary, Russia, South Africa, Turkey, Australia, China, Indonesia, Pakistan and Singapore; and in Healthcare Communications in Hong Kong.

So far in 2013, the Group has made acquisitions or increased equity interests in Advertising and Media Investment Management in Australia, Canada, Colombia, Myanmar and Thailand; in Consumer Insight in Cambodia and Myanmar; in Public Relations & Public Affairs in China and Vietnam; and in direct, digital and interactive in Latin America, China, the Philippines, South Africa, Turkey, the UK and the US.

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.

Expansion plans

We intend to expand our strong networks – Ogilvy & Mather, JWT, Y&R, Grey, United, CHI Bates & Partners, 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, 24/7 Media, AKQA, Ogilvy CommonHealth Worldwide, Sudler & Hennessey, ghg, The Brand Union, Landor and FITCH – in high-growth markets or where their market share is insufficient. Indeed, we recently announced the merger of OgilvyAction and G2 to form the largest and most geographically complete activation agency in the world. Together they will be uniquely placed to exploit the intersection of the world’s brands and distribution systems.

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 and internet audience research and IBOPE, Marktest and CSM/CTR, which, combined, is the market leader outside North America. We now measure television and/or internet audiences in 46 countries around the world.

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.
Sixth, to improve still further the creative capabilities and reputation of all our businesses. In pursuing these aims, the Group is led by John O’Keeffe, WPP’s worldwide creative director. Under John’s guidance progress continues to be impressive.

There is much talk of co-ordinated communications, ‘horizontality’, and price effectiveness.

All are important.

None is as important as the quality of the work.

Creative excellence 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.

This of course means creativity in its broadest sense.

Our 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 recently launched BrandZ™ Top 50 Most Valuable Latin American Brands.

We intend to achieve our creative objectives 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.

Early on in his tenure John O’Keeffe identified Cannes as the most important arena to demonstrate the Group’s creative credentials. Results have been very encouraging.

For the second year running your Company was named Creative Holding Company of the Year at the 2012 Cannes Lions International Festival of Creativity. The festival is the world’s premier showcase for excellence in communications, covering all markets and all disciplines. Back to back recognition of this kind is a real marker of progress and consistency, particularly as our main competitors posted record performances of their own.

Based on the collective number of Cannes Lions awarded to WPP agencies for creative excellence, WPP accumulated 1,589 points in the competition, followed by Omnicom second with 1,383 points and Publicis with 1,018 points. Awards were won by WPP agencies from more than 30 countries across all continents. Following 2011’s advertising Grand Prix for JWT Shanghai, in a gratifying double for WPP China, 2012 saw another Grand Prix awarded to Ogilvy Shanghai. And in what proved to be a stellar year all round, Ogilvy was also named winner of the coveted Network of the Year.

2012 also saw the sixth annual WPPED Cream awards, our internal awards program for outstanding work across the Group.

Having said this, we have to maintain a careful and to some extent cautious approach. A recent significant problem we had in the creative area has made us take a long, detailed look at our creative culture to make sure that our emphasis on creative improvement doesn’t result in inappropriate ‘scam’ ads for festivals, for example. We need to take total responsibility for such events and make sure that our drive in creativity doesn’t result in totally inappropriate behaviour.