Appendix 1: Preliminary results for the year ended 31 December 2012

Unaudited preliminary consolidated income statement for the year ended 31 December 2012

£ million	Notes	2012	2011	+/(-)%	Constant Currency[1] +/(-)%
Billings		44,405.3	44,791.8	(0.9)	1.6
Revenue	6	10,373.1	10,021.8	3.5	5.8
Direct costs		(858.3)	(783.3)	(9.6)	(13.0)
Gross profit		9,514.8	9,238.5	3.0	5.2
Operating costs	4	(8,273.7)	(8,046.3)	(2.8)	(4.7)
Operating profit		1,241.1	1,192.2	4.1	8.4
Share of results of associates	4	69.4	66.1	5.0	10.7
Profit before interest and taxation		1,310.5	1,258.3	4.1	8.5
Finance income	5	85.9	97.3	(11.7)	(4.0)
Finance costs	5	(299.8)	(297.2)	(0.9)	(1.4)
Revaluation of financial instruments	5	(4.7)	(50.0)	-	-
Profit before taxation		1,091.9	1,008.4	8.3	14.6
Taxation	7	(197.2)	(91.9)	(114.6)	(141.0)
Profit for the year		894.7	916.5	(2.4)	2.4
Attributable to:					
Equity holders of the parent		822.7	840.1	(2.1)	2.7
Non-controlling interests		72.0	76.4	5.8	1.2
		894.7	916.5	(2.4)	2.4
Headline PBIT	6,19	1,531.0	1,429.0	7.1	11.1
Headline PBIT margin	6,19	14.8%	14.3%		
Headline PBT	19	1,317.1	1,229.1	7.2	12.3
Earnings per share[2]					
Basic earnings per ordinary share	9	66.2p	67.6p	(2.1)	2.7
Diluted earnings per ordinary share	9	62.8p	64.5p	(2.6)	1.9

[1] The basis for calculating the constant currency percentage changes shown above and in the notes to this appendix are described in the glossary attached to this appendix.
[2] The calculations of the Group's earnings per share and headline earnings per share are set out in note 9.

Unaudited preliminary consolidated statement of comprehensive income for the year ended 31 December 2012

£ million	2012	2011
Profit for the year	894.7	916.5
Exchange adjustments on foreign currency net investments	(305.2)	(256.3)
(Loss)/gain on revaluation of available for sale investments	(3.5)	11.3
Actuarial loss on defined benefit pension plans	(83.9)	(72.0)
Deferred tax on defined benefit pension plans	7.3	0.1
Other comprehensive loss relating to the year	(385.3)	(316.9)
Total comprehensive income relating to the year	509.4	599.6
Attributable to:		
Equity holders of the parent	444.2	529.5
Non-controlling interests	65.2	70.1
	509.4	599.6

Unaudited preliminary consolidated cash flow statement for the year ended 31 December 2012

£ million	Notes	2012	2011
Net cash inflow from operating activities	10	908.3	665.2
Investing activities			
Acquisitions and disposals	10	(566.5)	(469.8)
Purchase of property, plant and equipment		(290.3)	(216.1)
Purchase of other intangible assets (including capitalised computer software)		(39.8)	(37.1)
Proceeds on disposal of property, plant and equipment		123.5	13.2
Net cash outflow from investing activities		(773.1)	(709.8)
Financing activities			
Share option proceeds		56.0	28.8
Cash consideration for non-controlling interests	10	(20.1)	(62.6)
Share repurchases and buybacks	10	(134.5)	(182.2)
Net increase in borrowings	10	380.5	301.4
Financing and share issue costs		(8.2)	(11.9)
Equity dividends paid		(306.6)	(218.4)
Dividends paid to non-controlling interests in subsidiary undertakings		(51.9)	(62.2)
Net cash outflow from financing activities		(84.8)	(207.1)
Net increase/(decrease) in cash and cash equivalents		50.4	(251.7)
Translation differences		(119.3)	(29.9)
Cash and cash equivalents at beginning of year		1,428.2	1,709.8
Cash and cash equivalents at end of year	10	1,359.3	1,428.2

Reconciliation of net cash flow to movement in net debt:			
Net increase/(decrease) in cash and cash equivalents		50.4	(251.7)
Cash inflow from increase in debt financing		(372.5)	(289.5)
Debt acquired		(20.0)	(17.5)
Other movements		3.4	(16.4)
Translation differences		(17.7)	(1.3)
Movement of net debt in the year		(356.4)	(576.4)
Net debt at beginning of year		(2,464.8)	(1,888.4)
Net debt at end of year	11	(2,821.2)	(2,464.8)

Unaudited preliminary consolidated balance sheet as at 31 December 2012

£ million	Notes	2012	2011
Non-current assets			
Intangible assets:			
Goodwill	12	9,457.2	9,430.8
Other	13	1,827.4	1,859.9
Property, plant and equipment		768.3	728.3
Interests in associates and joint ventures		887.2	801.3
Other investments		176.5	190.8
Deferred tax assets		91.2	86.0
Trade and other receivables	14	245.1	309.1
		13,452.9	13,406.2
Current assets			
Inventory and work in progress		348.2	333.9
Corporate income tax recoverable		124.2	88.5
Trade and other receivables	14	9,007.0	8,919.7
Cash and short-term deposits		1,945.3	1,946.6
		11,424.7	11,288.7
Current liabilities			
Trade and other payables	15	(10,907.8)	(11,165.5)
Corporate income tax payable		(102.9)	(113.4)
Bank overdrafts and loans		(1,085.9)	(518.4)
		(12,096.6)	(11,797.3)
Net current liabilities		(671.9)	(508.6)
Total assets less current liabilities		12,781.0	12,897.6
Non-current liabilities			
Bonds and bank loans		(3,680.6)	(3,893.0)
Trade and other payables	16	(512.0)	(553.1)
Corporate income tax payable		(375.3)	(379.5)
Deferred tax liabilities		(680.3)	(741.4)
Provisions for post-employment benefits		(335.6)	(282.3)
Provisions for liabilities and charges		(136.6)	(154.0)
		(5,720.4)	(6,003.3)
Net assets		7,060.6	6,894.3
Equity			
Called-up share capital	17	126.5	126.6
Share premium account		175.9	105.7
Shares to be issued		1.8	2.4
Other reserves		(4,513.0)	(4,197.3)
Own shares		(166.5)	(177.6)
Retained earnings		11,186.3	10,803.5
Equity share owners' funds		6,811.0	6,663.3
Non-controlling interests		249.6	231.0
Total equity		7,060.6	6,894.3

Unaudited preliminary consolidated statement of changes in equity for the year ended 31 December 2012

£ million	Called-up share capital	Share premium account	Shares to be issued	Other reserves	Own shares	Retained earnings	Total equity share owners' funds	Non-controlling interests	Total
Balance at 1 January 2011	126.4	54.5	3.1	(3,954.0)	(144.8)	10,361.4	6,446.6	201.3	6,647.9
Ordinary shares issued	0.6	30.4	(0.7)	0.6	-	-	30.9	-	30.9
Share cancellations	(0.7)	-	-	0.7	-	(45.9)	(45.9)	-	(45.9)
Treasury share additions	-	-	-	-	(29.8)	-	(29.8)	-	(29.8)
Treasury share allocations	-	-	-	-	0.8	(0.8)	-	-	-
Exchange adjustments on foreign currency net investments	-	-	-	(250.0)	-	-	(250.0)	(6.3)	(256.3)
Net profit for the year	-	-	-	-	-	840.1	840.1	76.4	916.5
Dividends paid	-	-	-	-	-	(218.4)	(218.4)	(62.2)	(280.6)
Scrip dividend	0.3	20.8	-	-	-	(21.1)	-	-	-
Non-cash share-based incentive plans (including share options)	-	-	-	-	-	78.8	78.8	-	78.8
Tax adjustment on share-based payments	-	-	-	-	-	(11.7)	(11.7)	-	(11.7)
Net movement in own shares held by ESOP Trusts	-	-	-	-	(3.8)	(102.7)	(106.5)	-	(106.5)
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(72.0)	(72.0)	-	(72.0)
Deferred tax on defined benefit pension plans	-	-	-	-	-	0.1	0.1	-	0.1
Gain on revaluation of available for sale investments	-	-	-	11.3	-	-	11.3	-	11.3
Recognition/remeasurement of financial instruments	-	-	-	(5.9)	-	33.8	27.9	-	27.9
Acquisition of subsidiaries[1]	-	-	-	-	-	(38.1)	(38.1)	21.8	(16.3)
Balance at 31 December 2011	126.6	105.7	2.4	(4,197.3)	(177.6)	10,803.5	6,663.3	231.0	6,894.3
Ordinary shares issued	1.0	55.0	(0.6)	0.5	-	-	55.9	-	55.9
Share issue/cancellation costs	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
Share cancellations	(0.7)	-	-	0.7	-	(55.1)	(55.1)	-	(55.1)
Treasury share additions	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Treasury share allocations	-	-	-	-	0.9	(0.9)	-	-	-
Treasury share cancellations	(0.6)	-	-	0.6	37.2	(37.2)	-	-	-
Exchange adjustments on foreign currency net investments	-	-	-	(298.4)	-	-	(298.4)	(6.8)	(305.2)
Net profit for the year	-	-	-	-	-	822.7	822.7	72.0	894.7
Dividends paid	-	-	-	-	-	(306.6)	(306.6)	(51.9)	(358.5)
Scrip dividend	0.2	15.4	-	-	-	(15.6)	-	-	-
Non-cash share-based incentive plans (including share options)	-	-	-	-	-	92.8	92.8	-	92.8
Tax adjustment on share-based payments	-	-	-	-	-	18.3	18.3	-	18.3
Net movement in own shares held by ESOP Trusts	-	-	-	-	(26.4)	(52.4)	(78.8)	-	(78.8)
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(83.9)	(83.9)	-	(83.9)
Deferred tax on defined benefit pension plans	-	-	-	-	-	7.3	7.3	-	7.3
Loss on revaluation of available for sale investments	-	-	-	(3.5)	-	-	(3.5)	-	(3.5)
Recognition/remeasurement of financial instruments	-	-	-	2.7	-	14.8	17.5	-	17.5
Share purchases - close period commitments	-	-	-	(18.3)	-	-	(18.3)	-	(18.3)
Acquisition of subsidiaries[1]	-	-	-	-	-	(21.4)	(21.4)	5.3	(16.1)
Balance at 31 December 2012	126.5	175.9	1.8	(4,513.0)	(166.5)	11,186.3	6,811.0	249.6	7,060.6

Total comprehensive income relating to the year ended 31 December 2012 was £509.4 million (2011: £599.6 million)

[1] Acquisition of subsidiaries represents movements in retained earnings and non-controlling interests arising from increases in ownership of existing subsidiaries and recognition of non-controlling interests on new acquisitions.

Notes to the unaudited preliminary consolidated financial statements

1. Basis of accounting

The unaudited preliminary consolidated financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments as disclosed in our accounting policies.

2. Accounting policies

The unaudited preliminary consolidated financial statements comply with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB), and with the accounting policies of the Group which were set out on pages 145 to 151 of the 2011 Annual Report and Accounts. No changes have been made to the Group's accounting policies in the year ended 31 December 2012.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with all IFRS disclosure requirements. The Company's 2012 Annual Report and Accounts will be prepared in compliance with IFRS. The unaudited preliminary announcement does not constitute a dissemination of the annual financial report and does not therefore need to meet the dissemination requirements for annual financial reports. A separate dissemination announcement in accordance with Disclosure and Transparency Rules (DTR) 6.3 will be made when the annual report and audited financial statements are available on the Company's website.

Statutory Information

The financial information included in this preliminary announcement does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2011 have been delivered to the Jersey Registrar and received an unqualified auditors' report. The statutory accounts for the year ended 31 December 2012 will be finalised on the basis of the financial information presented by the directors in this unaudited preliminary announcement and will be delivered to the Jersey Registrar following the Company's General Meeting. The audit report for the year ended 31 December 2012 has yet to be signed.

The announcement of the preliminary results was approved by the board of directors on 1 March 2013.

Notes to the unaudited preliminary consolidated financial statements (continued)

3. Currency conversion

The reporting currency of the Group is pound sterling and the unaudited consolidated financial statements have been prepared on this basis.

The 2012 unaudited preliminary consolidated income statement is prepared using, among other currencies, average exchange rates of US$1.5852 to the pound (2011: US$1.6032) and €1.2336 to the pound (2011: €1.1526). The unaudited preliminary consolidated balance sheet as at 31 December 2012 has been prepared using the exchange rates on that day of US$1.6242 to the pound (2011: US$1.5509) and €1.2307 to the pound (2011: €1.1967).

The basis for calculating the constant currency percentage changes, shown on the face of the unaudited preliminary consolidated income statement, is described in the glossary attached to this appendix.

4. Operating costs and share of results of associates

£ million	2012	2011
Staff costs	6,106.1	5,872.5
Establishment costs	690.6	674.1
Other operating costs	1,477.0	1,499.7
Total operating costs	8,273.7	8,046.3

Staff costs include:

£ million	2012	2011
Wages and salaries	4,289.7	4,079.4
Cash-based incentive plans	198.1	259.4
Share-based incentive plans	92.8	78.8
Social security costs	524.7	499.3
Pension costs	148.7	135.4
Severance	50.8	53.9
Other staff costs	801.3	766.3
	6,106.1	5,872.5
Staff cost to revenue ratio	58.9%	58.6%

Other operating costs include:

£ million	2012	2011
Amortisation and impairment of acquired intangible assets	171.9	172.0
Goodwill impairment	32.0	-
Gains on disposal of investments	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(5.3)	(31.6)
Investment write-downs	19.6	32.8
Gain on sale of freehold property in New York	(71.4)	-
Cost of changes to corporate structure	4.1	-
Restructuring costs	93.4	-

Notes to the unaudited preliminary consolidated financial statements (continued)

4. Operating costs and share of results of associates (continued)

The goodwill impairment charge of £32.0 million relates to a number of under-performing businesses in the Group. In certain markets, the impact of current, local economic conditions and trading circumstances on these businesses is sufficiently severe to indicate impairment to the carrying value of goodwill. Investment write-downs of £19.6 million (2011: £32.8 million) relate to certain non-core minority investments in Continental Europe and the US where forecast financial performance and/or liquidity issues indicate a permanent decline in the recoverability of the Group's investment.

Restructuring costs of £93.4 million include £62.9 million of severance costs arising from a structural reassessment of certain of the Group's operations, primarily in Western Continental Europe; and £30.5 million of other costs, primarily accelerated depreciation of IT assets in the US and Europe, arising from an overhaul of its centralised IT infrastructure.

Operating profit includes credits totalling £19.8 million (2011: £14.0 million) relating to the release of excess provisions and other balances established in respect of acquisitions completed prior to 2011.

Share of results of associates include:

£ million	**2012**	**2011**
Share of profit before interest and taxation	105.1	99.9
Share of exceptional (losses)/gains	(3.0)	2.1
Share of interest and non-controlling interests	(1.6)	(2.5)
Share of taxation	(31.1)	(33.4)
	69.4	66.1

5. Finance income, finance costs and revaluation of financial instruments

Finance income includes:

£ million	**2012**	**2011**
Expected return on pension plan assets	30.0	32.6
Income from available for sale investments	1.2	0.6
Interest income	54.7	64.1
	85.9	97.3

Finance costs include:

£ million	**2012**	**2011**
Interest on pension plan liabilities	41.3	43.8
Interest on other long-term employee benefits	1.7	1.8
Interest payable and similar charges	256.8	251.6
	299.8	297.2

Notes to the unaudited preliminary consolidated financial statements (continued)

5. Finance income, finance costs and revaluation of financial instruments (continued)

Revaluation of financial instruments include:

£ million	2012	2011
Movements in fair value of treasury instruments	(14.8)	(12.7)
Revaluation of put options over non-controlling interests	(5.1)	(30.9)
Revaluation of payments due to vendors (earnout agreements)	15.2	(6.4)
	(4.7)	(50.0)

6. Segmental analysis

Reported contributions by operating sector were as follows:

£ million	2012	2011
Revenue		
Advertising and Media Investment Management	4,273.2	4,157.2
Consumer Insight	2,460.2	2,458.0
Public Relations & Public Affairs	917.1	885.4
Branding & Identity, Healthcare and Specialist Communications	2,722.6	2,521.2
	10,373.1	10,021.8
Headline PBIT[1]		
Advertising and Media Investment Management	754.5	667.9
Consumer Insight	246.9	258.7
Public Relations & Public Affairs	136.4	142.9
Branding & Identity, Healthcare and Specialist Communications	393.2	359.5
	1,531.0	1,429.0
Headline PBIT margin		
Advertising and Media Investment Management	17.7%	16.1%
Consumer Insight	10.0%	10.5%
Public Relations & Public Affairs	14.9%	16.1%
Branding & Identity, Healthcare and Specialist Communications	14.4%	14.3%
	14.8%	14.3%

[1] Headline PBIT is defined in note 19.

Notes to the unaudited preliminary consolidated financial statements (continued)

6. Segmental analysis (continued)

Reported contributions by geographical area were as follows:

£ million	**2012**	**2011**
Revenue		
North America[2]	3,546.5	3,388.2
United Kingdom	1,275.2	1,183.5
Western Continental Europe[3]	2,439.2	2,505.1
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,112.2	2,945.0
	10,373.1	10,021.8
Headline PBIT[1]		
North America[2]	578.6	525.6
United Kingdom	173.3	165.3
Western Continental Europe[3]	252.9	284.0
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	526.2	454.1
	1,531.0	1,429.0
Headline PBIT margin		
North America[2]	16.3%	15.5%
United Kingdom	13.6%	14.0%
Western Continental Europe[3]	10.4%	11.3%
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	16.9%	15.4%
	14.8%	14.3%

[1] Headline PBIT is defined in note 19.
[2] North America includes the US with revenue of £3,309.4 million (2011: £3,149.9 million) and headline PBIT of £547.8 million (2011: £490.2 million).
[3] Western Continental Europe includes Ireland with revenue of £36.6 million (2011: £40.3 million) and headline PBIT of £0.7 million (2011: £1.1 million).

Notes to the unaudited preliminary consolidated financial statements (continued)

7. Taxation

The headline tax rate was 21.2% (2011: 22.0%). The tax rate on reported PBT was 18.1% (2011: 9.1%). The cash tax rate on headline PBT[1] was 19.5% (2011: 20.2%).

The tax charge comprises:

£ million	2012	2011
Corporation tax		
Current year	335.5	310.3
Prior years	(41.7)	(47.7)
Exceptional release of prior year provisions	-	(106.1)
Tax credit relating to restructuring costs	(15.7)	-
	278.1	156.5
Deferred tax		
Current year	(14.4)	4.5
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	(86.0)	(72.4)
Deferred tax on gain on sale of freehold property in New York	20.0	-
	(80.4)	(67.9)
Prior years	(0.5)	3.3
	(80.9)	(64.6)
Tax charge	197.2	91.9

The calculation of the headline tax rate is as follows:

£ million	2012	2011
Headline PBT[1]	1,317.1	1,229.1
Tax charge	197.2	91.9
Deferred tax on gain on sale of freehold property in New York	(20.0)	-
Tax credit relating to restructuring costs	15.7	-
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	86.0	72.4
Exceptional release of prior year provisions	-	106.1
Headline tax charge	278.9	270.4
Headline tax rate	21.2%	22.0%

8. Ordinary dividends

The Board has recommended a final dividend of 19.71p (2011: 17.14p) per ordinary share in addition to the interim dividend of 8.80p (2011: 7.46p) per share. This makes a total for the year of 28.51p (2011: 24.60p). Payment of the final dividend of 19.71p per ordinary share will be made on 8 July 2013 to holders of ordinary shares in the Company on 7 June 2013.

[1] Headline PBT is defined in note 19.

Notes to the unaudited preliminary consolidated financial statements (continued)

9. Earnings per share

Basic EPS

The calculation of basic reported and headline EPS is as follows:

	2012	2011	+/(-)%	Constant Currency +/(-)%
Reported earnings[1] (£ million)	822.7	840.1		
Headline earnings (£ million) (note 19)	966.2	882.3		
Average shares used in basic EPS calculation (million)	1,243.4	1,242.7		
Reported EPS	66.2p	67.6p	(2.1)	2.7
Headline EPS	77.7p	71.0p	9.4	14.4

Diluted EPS

The calculation of diluted reported and headline EPS is as follows:

	2012	2011	+/(-)%	Constant Currency +/(-)%
Diluted reported earnings (£ million)	848.8	866.2		
Diluted headline earnings (£ million)	992.3	908.4		
Shares used in diluted EPS calculation (million)	1,352.6	1,342.2		
Diluted reported EPS	62.8p	64.5p	(2.6)	1.9
Diluted headline EPS	73.4p	67.7p	8.4	13.1

Diluted EPS has been calculated based on the reported and headline earnings amounts above. On 19 May 2009 the Group issued £450 million 5.75% convertible bonds due in 2014. For the year ended 31 December 2012 these convertible bonds were dilutive and earnings were consequently increased by £26.1 million (2011: £26.1 million) for the purpose of the calculation of diluted earnings.

A reconciliation between the shares used in calculating basic and diluted EPS is as follows:

million	2012	2011
Average shares used in basic EPS calculation	1,243.4	1,242.7
Dilutive share options outstanding	4.9	4.5
Other potentially issuable shares	27.8	18.5
£450 million 5.75% convertible bonds	76.5	76.5
Shares used in diluted EPS calculation	1,352.6	1,342.2

At 31 December 2012 there were 1,265,407,107 (2011: 1,266,373,821) ordinary shares in issue.

[1] Reported earnings is equivalent to profit for the year attributable to equity holders of the parent.

Notes to the unaudited preliminary consolidated financial statements (continued)

10. Analysis of cash flows

The following tables analyse the items included within the main cash flow headings on page 18:

Net cash inflow from operating activities:

£ million	2012	2011
Profit for the year	894.7	916.5
Taxation	197.2	91.9
Revaluation of financial instruments	4.7	50.0
Finance costs	299.8	297.2
Finance income	(85.9)	(97.3)
Share of results of associates	(69.4)	(66.1)
Operating profit	1,241.1	1,192.2
Adjustments for:		
Non-cash share-based incentive plans (including share options)	92.8	78.8
Depreciation of property, plant and equipment	191.0	185.8
Goodwill impairment	32.0	-
Amortisation and impairment of acquired intangible assets	171.9	172.0
Amortisation of other intangible assets	33.7	25.7
Investment write-downs	19.6	32.8
Gains on disposal of investments	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(5.3)	(31.6)
Gain on sale of freehold property in New York	(71.4)	-
Losses/(gains) on sale of property, plant and equipment	0.7	(0.9)
Operating cash flow before movements in working capital and provisions	1,679.3	1,654.4
Movements in working capital and provisions	(388.2)	(620.9)
Cash generated by operations	1,291.1	1,033.5
Corporation and overseas tax paid	(257.0)	(247.9)
Interest and similar charges paid	(228.3)	(241.4)
Interest received	56.6	63.2
Investment income	1.2	0.6
Dividends from associates	44.7	57.2
	908.3	665.2

Acquisitions and disposals:

£ million	2012	2011
Initial cash consideration	(462.0)	(352.3)
Cash and cash equivalents acquired (net)	46.6	98.8
Earnout payments	(85.7)	(150.0)
Loan note redemptions	(1.0)	(0.8)
Purchase of other investments (including associates)	(111.4)	(68.1)
Proceeds on disposal of investments	47.0	2.6
Acquisitions and disposals	(566.5)	(469.8)
Cash consideration for non-controlling interests	(20.1)	(62.6)
Net acquisition payments and investments	(586.6)	(532.4)

Notes to the unaudited preliminary consolidated financial statements (continued)

10. Analysis of cash flows (continued)

Share repurchases and buybacks:

£ million	2012	2011
Purchase of own shares by ESOP Trusts	(78.8)	(106.5)
Share cancellations	(55.1)	(45.9)
Shares purchased into treasury	(0.6)	(29.8)
	(134.5)	(182.2)

Net increase in borrowings:

£ million	2012	2011
Proceeds from issue of $500 million bonds	312.1	319.5
Proceeds from issue of $300 million bonds	187.3	-
Decrease in drawings on bank loans	(79.7)	-
Repayment of debt acquired	(20.0)	(18.1)
Repayment of $30 million TNS private placements	(19.2)	-
	380.5	301.4

Cash and cash equivalents:

£ million	2012	2011
Cash at bank and in hand	1,721.4	1,833.5
Short-term bank deposits	223.9	113.1
Overdrafts[1]	(586.0)	(518.4)
	1,359.3	1,428.2

11. Net debt

£ million	2012	2011
Cash and short-term deposits	1,945.3	1,946.6
Bank overdrafts and loans due within one year	(1,085.9)	(518.4)
Bonds and bank loans due after one year	(3,680.6)	(3,893.0)
	(2,821.2)	(2,464.8)

[1] Bank overdrafts are included in cash and cash equivalents because they form an integral part of the Group's cash management.

Notes to the unaudited preliminary consolidated financial statements (continued)

12. Goodwill and acquisitions

Goodwill in relation to subsidiary undertakings increased by £26.4 million (2011: £324.5 million) in the year. This movement includes both goodwill arising on acquisitions completed in the year and adjustments to goodwill relating to acquisitions completed in prior years, net of impairment charges and the effect of currency translation. Goodwill in relation to associate undertakings decreased by £0.5 million (2011: £10.5 million) in the year.

Future anticipated payments to vendors in respect of both deferred and earnout obligations totalled £194.0 million (2011: £234.1 million). Earnouts are based on the directors' best estimates of future obligations, which are dependent on the future performance of the interests acquired and assume the operating companies improve profits in line with directors' estimates. An analysis of movements on deferred and earnout obligations is shown in note 16.

The contribution to revenue and operating profit of acquisitions completed in the year was not material. There were no material acquisitions completed during the year or between 31 December 2012 and the date these preliminary financial statements were approved.

13. Other intangible assets

The following are included in other intangibles:

£ million	**2012**	**2011**
Brands with an indefinite useful life	993.1	1,036.4
Acquired intangibles	746.0	741.4
Other (including capitalised computer software)	88.3	82.1
	1,827.4	1,859.9

14. Trade and other receivables

Amounts falling due within one year:

£ million	**2012**	**2011**
Trade receivables	6,204.2	6,305.1
VAT and sales taxes recoverable	75.6	76.2
Prepayments and accrued income	2,232.2	2,044.0
Other debtors	495.0	494.4
	9,007.0	8,919.7

Notes to the unaudited preliminary consolidated financial statements (continued)

14. Trade and other receivables (continued)

Amounts falling due after more than one year:

£ million	2012	2011
Prepayments and accrued income[1]	29.5	36.6
Other debtors[1]	73.9	87.6
Fair value of derivatives	141.7	184.9
	245.1	309.1

15. Trade and other payables: amounts falling due within one year

£ million	2012	2011
Trade payables	7,227.5	7,292.7
Deferred income	880.2	1,002.3
Payments due to vendors (earnout agreements)	33.4	96.8
Liabilities in respect of put option agreements with vendors	64.3	79.2
Fair value of derivatives	31.6	0.5
Share purchases - close period commitments	18.2	-
Other creditors and accruals	2,652.6	2,694.0
	10,907.8	11,165.5

16. Trade and other payables: amounts falling due after more than one year

£ million	2012	2011
Payments due to vendors (earnout agreements)	160.6	137.3
Liabilities in respect of put option agreements with vendors	80.0	89.1
Fair value of derivatives	79.7	139.9
Other creditors and accruals	191.7	186.8
	512.0	553.1

The following table sets out payments due to vendors, comprising deferred consideration and the directors' best estimates of future earnout related obligations:

£ million	2012	2011
Within one year	33.4	96.8
Between 1 and 2 years	35.7	31.6
Between 2 and 3 years	28.7	25.2
Between 3 and 4 years	30.4	18.6
Between 4 and 5 years	63.8	28.9
Over 5 years	2.0	33.0
	194.0	234.1

[1] Comparative figures have been restated to be consistent with current year presentation.

Notes to the unaudited preliminary consolidated financial statements (continued)

16. Trade and other payables: amounts falling due after more than one year (continued)

The following table sets out the movements of deferred and earnout related obligations during the year:

£ million	2012	2011
At the beginning of the year	234.1	275.3
Earnouts paid	(85.7)	(150.0)
New acquisitions	61.5	80.4
Revision of estimates taken to goodwill	8.6	25.9
Revaluation of payments due to vendors (note 5)	(15.2)	6.4
Exchange adjustments	(9.3)	(3.9)
At the end of the year	194.0	234.1

The Group does not consider there to be any material contingent liabilities as at 31 December 2012.

17. Issued share capital – movement in the year

Number of equity ordinary shares (million)	2012	2011
At the beginning of the year	1,266.4	1,264.4
Exercise of share options	10.0	5.9
Share cancellations	(6.7)	(7.0)
Scrip dividend	2.0	3.1
Treasury share cancellations	(6.3)	-
At the end of the year	1,265.4	1,266.4

18. Related party transactions

From time to time the Group enters into transactions with its associate undertakings. These transactions were not material for either year presented.

Notes to the unaudited preliminary consolidated financial statements (continued)

19. Non-GAAP measures of performance

Reconciliation of profit before interest and taxation to headline PBIT for the year ended 31 December 2012:

£ million	2012	2011
Profit before interest and taxation	1,310.5	1,258.3
Amortisation and impairment of acquired intangible assets	171.9	172.0
Goodwill impairment	32.0	-
Gains on disposal of investments	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(5.3)	(31.6)
Investment write-downs	19.6	32.8
Cost of changes to corporate structure	4.1	-
Gain on sale of freehold property in New York	(71.4)	-
Restructuring costs	93.4	-
Share of exceptional losses/(gains) of associates	3.0	(2.1)
Headline PBIT	1,531.0	1,429.0
Finance income	85.9	97.3
Finance costs	(299.8)	(297.2)
	(213.9)	(199.9)
Interest cover on headline PBIT	7.2 times	7.1 times

Calculation of headline EBITDA:

£ million	2012	2011
Headline PBIT (as above)	1,531.0	1,429.0
Depreciation of property, plant and equipment	191.0	185.8
Amortisation of other intangible assets	33.7	25.7
Headline EBITDA	1,755.7	1,640.5

Headline PBIT margins before and after share of results of associates:

£ million	Margin	2012	Margin	2011
Revenue		10,373.1		10,021.8
Headline PBIT	14.8%	1,531.0	14.3%	1,429.0
Share of results of associates (excluding exceptional gains/losses)		72.4		64.0
Headline PBIT excluding share of results of associates	14.1%	1,458.6	13.6%	1,365.0

Notes to the unaudited preliminary consolidated financial statements (continued)

19. Non-GAAP measures of performance (continued)

Reconciliation of profit before taxation to headline PBT and headline earnings for the year ended 31 December 2012:

£ million	**2012**	**2011**
Profit before taxation	1,091.9	1,008.4
Amortisation and impairment of acquired intangible assets	171.9	172.0
Goodwill impairment	32.0	-
Gains on disposal of investments	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(5.3)	(31.6)
Investment write-downs	19.6	32.8
Cost of changes to corporate structure	4.1	-
Gain on sale of freehold property in New York	(71.4)	-
Restructuring costs	93.4	-
Share of exceptional losses/(gains) of associates	3.0	(2.1)
Revaluation of financial instruments	4.7	50.0
Headline PBT	1,317.1	1,229.1
Headline tax charge (note 7)	(278.9)	(270.4)
Non-controlling interests	(72.0)	(76.4)
Headline earnings	966.2	882.3
Ordinary dividends	322.2	239.5
Dividend cover on headline earnings	3.0 times	3.7 times

Reconciliation of free cash flow for the year ended 31 December 2012:

£ million	**2012**	**2011**
Cash generated by operations	1,291.1	1,033.5
Plus:		
Interest received	56.6	63.2
Investment income	1.2	0.6
Dividends from associates	44.7	57.2
Share option proceeds	56.0	28.8
Proceeds on disposal of property, plant and equipment	123.5	13.2
Movements in working capital and provisions	388.2	620.9
Less:		
Interest and similar charges paid	(228.3)	(241.4)
Purchase of property, plant and equipment	(290.3)	(216.1)
Purchase of other intangible assets (including capitalised computer software)	(39.8)	(37.1)
Corporation and overseas tax paid	(257.0)	(247.9)
Dividends paid to non-controlling interests in subsidiary undertakings	(51.9)	(62.2)
Free cash flow	1,094.0	1,012.7

Notes to the unaudited preliminary consolidated financial statements (continued)

20. Going concern and liquidity risk

In considering going concern and liquidity risk, the directors have reviewed the Group's future cash requirements and earnings projections. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the Group should be able to operate within its current facilities and comply with its banking covenants for the foreseeable future and therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis.

At 31 December 2012, the Group has access to £5.2 billion of committed bank facilities with maturity dates spread over the years 2013 to 2042 as illustrated below:

£ million		Maturity by Year					
		2013	**2014**	**2015**	**2016**	**2017**	**2018+**
US bond $300m (5.125% '42)	**184.7**						184.7
US bond $500m (3.625% '22)	**307.8**						307.8
US bond $812m (4.75% '21)	**500.2**						500.2
£ bonds £200m (6.375% '20)	**200.0**						200.0
£ bonds £400m (6.0% '17)	**400.0**					400.0	
Bank revolver ($1,050m and £375m)	**1,021.5**				1,021.5		
Eurobonds €750m (6.625% '16)	**609.4**				609.4		
Eurobonds €500m (5.25% '15)	**406.3**			406.3			
£450m convertible bonds (5.75% '14)	**450.0**		450.0				
US bond $600m (8.0% '14)	**369.4**		369.4				
US bond $369m (5.875% '14)	**227.0**		227.0				
TNS private placements $25m	**15.4**		15.4				
Eurobonds €600m (4.375% '13)	**487.5**	487.5					
Total committed facilities available	**5,179.2**	**487.5**	**1,061.8**	**406.3**	**1,630.9**	**400.0**	**1,192.7**
Drawn down facilities at 31 December 2012	4,157.7	487.5	1,061.8	406.3	609.4	400.0	1,192.7
Undrawn committed credit facilities	1,021.5						
Drawn down facilities at 31 December 2012	4,157.7						
Net cash at 31 December 2012	(1,359.3)						
Other adjustments	22.8						
Net debt at 31 December 2012	2,821.2						

The Group's borrowings are evenly distributed between fixed and floating rate debt. Given the strong cash generation of the business, its debt maturity profile and available facilities, the directors believe the Group has sufficient liquidity to match its requirements for the foreseeable future.

Treasury management

The Group's treasury activities are principally concerned with monitoring of working capital, managing external and internal funding requirements and monitoring and managing financial market risks, in particular risks from movements in interest and foreign exchange rates.

The Group's risk management policies relating to foreign currency risk, interest rate risk, liquidity risk, capital risk and credit risk are presented in the notes to the consolidated financial statements of the 2011 Annual Report and Accounts and in the opinion of the Board remain relevant at 31 December 2012.

Notes to the unaudited preliminary consolidated financial statements (continued)

21. Principal risks and uncertainties

The directors have considered the principal risks and uncertainties affecting the Group for the year and determined that these are as published in the Prospectus relating to the admission of WPP plc to the Official List and trading on the London Stock Exchange plc dated 13 November 2012 (the "Prospectus"). The Prospectus is published in the Investor Relations section of the Group website (www.wpp.com) and copies are available from the Group on request.

WPP plc has specific policies in place to ensure that risks are properly evaluated and managed at the appropriate level within the business. These are presented on pages 110 to 114 of the published 2011 Annual Report and Accounts. Pages 16 to 19 of the Prospectus contain a detailed explanation of the risk factors identified by the Group and these are summarised below:

Clients

- The Group competes for clients in a highly competitive industry.
- The Group receives a significant portion of its revenues from a limited number of large clients.

Economic

- The Group is subject to recessionary economic cycles.

Financial

- The Group is subject to currency exchange rate fluctuations.
- The Group's cost of capital is influenced by the ratings issued by the international debt rating agencies.
- The Group is subject to credit risk through the default of a client or other counterparty.

Mergers & Acquisitions

- The Group may be unsuccessful in evaluating material risks involved in completed and future acquisitions, and may be unsuccessful in integrating any acquired operations with its existing businesses.
- Goodwill and other intangible assets recorded on the Group's balance sheet with respect to acquired companies may become impaired.

Operational

- The Group operates in 110 countries and is exposed to the risks of doing business internationally.

People

- The Group is highly dependent on the talent, creative abilities and technical skills of its senior management and other key personnel.

Notes to the unaudited preliminary consolidated financial statements (continued)

21. Principal risks and uncertainties (continued)

Regulatory/Legal

- The Group may be subject to regulations restricting its activities or effecting changes in taxation.
- The Group may be exposed to liabilities from allegations that certain of its clients' advertising claims may be false or misleading or that its clients' products may be defective or harmful.
- The Group is subject to strict anti-corruption and anti-bribery legislation and enforcement in the countries in which it operates.
- The Group is subject to strict data protection and privacy legislation in the various jurisdictions in which it operates and relies extensively on information technology systems.

Appendix 2: Preliminary results for the year ended 31 December 2012 in reportable US Dollars[1]

Unaudited illustrative preliminary consolidated income statement for the year ended 31 December 2012

$ million	2012	2011	+/(-)%
Billings	70,459.1	71,749.2	(1.8)
Revenue	16,459.3	16,053.4	2.5
Direct costs	(1,361.9)	(1,253.7)	(8.6)
Gross profit	15,097.4	14,799.7	2.0
Operating costs	(13,120.8)	(12,896.3)	(1.7)
Operating profit	1,976.6	1,903.4	3.8
Share of results of associates	110.3	105.8	4.3
Profit before interest and taxation	2,086.9	2,009.2	3.9
Finance income	136.3	155.3	(12.2)
Finance costs	(475.3)	(475.9)	0.1
Revaluation of financial instruments	(6.5)	(79.2)	-
Profit before taxation	1,741.4	1,609.4	8.2
Taxation	(315.4)	(151.1)	(108.7)
Profit for the year	1,426.0	1,458.3	(2.2)
Attributable to:			
Equity holders of the parent	1,311.5	1,335.7	(1.8)
Non-controlling interests	114.5	122.6	6.6
	1,426.0	1,458.3	(2.2)
Headline PBIT	2,439.3	2,281.5	6.9
Headline PBIT margin	14.8%	14.2%	
Headline PBT	2,100.3	1,960.9	7.1
Reported earnings per share[2]			
Basic earnings per ordinary share	105.5¢	107.5¢	(1.9)
Diluted earnings per ordinary share	100.0¢	102.6¢	(2.5)
Headline earnings per share[2]			
Basic earnings per ordinary share	123.9¢	112.7¢	9.9
Diluted earnings per ordinary share	117.0¢	107.5¢	8.8

[1] The unaudited consolidated income statement above is presented in reportable US Dollars for information purposes only and has been prepared assuming the US Dollar is the reporting currency of the Group, whereby local currency results are translated into US Dollars at actual monthly average exchange rates in the periods presented. Among other currencies, this includes an average exchange rate of US$1.5852 to the pound for the year ended 31 December 2012 (2011: US$1.6032).

[2] The basis of the calculations of the Group's earnings per share and headline earnings per share are set out in note 9 of Appendix 1.

Appendix 3: Preliminary results for the year ended 31 December 2012 in reportable Euros[1]

Unaudited illustrative preliminary consolidated income statement for the year ended 31 December 2012

€ million	2012	2011	+/(-)%
Billings	54,765.7	51,632.1	6.1
Revenue	12,796.3	11,553.8	10.8
Direct costs	(1,059.5)	(903.6)	(17.3)
Gross profit	11,736.8	10,650.2	10.2
Operating costs	(10,200.9)	(9,276.1)	(10.0)
Operating profit	1,535.9	1,374.1	11.8
Share of results of associates	85.7	76.1	12.6
Profit before interest and taxation	1,621.6	1,450.2	11.8
Finance income	106.0	112.3	(5.6)
Finance costs	(369.6)	(342.7)	(7.8)
Revaluation of financial instruments	(6.1)	(58.0)	-
Profit before taxation	1,351.9	1,161.8	16.4
Taxation	(243.9)	(102.6)	(137.7)
Profit for the year	1,108.0	1,059.2	4.6
Attributable to:			
Equity holders of the parent	1,018.8	971.5	4.9
Non-controlling interests	89.2	87.7	(1.7)
	1,108.0	1,059.2	4.6
Headline PBIT	1,892.4	1,648.1	14.8
Headline PBIT margin	14.8%	14.3%	
Headline PBT	1,628.7	1,417.7	14.9
Reported earnings per share[2]			
Basic earnings per ordinary share	81.9¢	78.2¢	4.7
Diluted earnings per ordinary share	77.7¢	74.6¢	4.2
Headline earnings per share[2]			
Basic earnings per ordinary share	96.1¢	82.2¢	16.9
Diluted earnings per ordinary share	90.7¢	78.4¢	15.7

[1] The unaudited consolidated income statement above is presented in reportable Euros for information purposes only and has been prepared assuming the Euro is the reporting currency of the Group, whereby local currency results are translated into Euros at actual monthly average exchange rates in the periods presented. Among other currencies, this includes an average exchange rate of €1.2336 to the pound for the year ended 31 December 2012 (2011: €1.1526).

[2] The basis of the calculations of the Group's earnings per share and headline earnings per share are set out in note 9 of Appendix 1.

Glossary and basis of preparation

Average net debt

Average net debt is calculated as the average daily net bank borrowings of the Group, derived from the Group's automated banking system. Net debt at a period end is calculated as the sum of the net bank borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet.

Billings and estimated net new billings

Billings comprise the gross amounts billed to clients in respect of commission-based/fee-based income together with the total of other fees earned. Net new billings represent the estimated annualised impact on billings of new business gained from both existing and new clients, net of existing client business lost. The estimated impact is based upon initial assessments of the clients' media budgets, which may not necessarily result in actual billings of the same amount.

Constant currency

The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying budgeted 2012 exchange rates to local currency reported results for the current and prior year. This gives a US dollar – denominated income statement which excludes any variances attributable to foreign exchange rate movements.

Free cash flow

Free cash flow is calculated as headline operating profit before non cash charges for share-based incentive plans, depreciation of property, plant and equipment and amortisation of other intangible assets, including dividends received from associates, interest received, investment income received, proceeds from the issue of shares, and proceeds from the disposal of property, plant and equipment, less corporation and overseas tax paid, interest and similar charges paid, dividends paid to non-controlling interests in subsidiary undertakings, purchases of property, plant and equipment and purchases of other intangible assets.

Gross margin/gross profit

The Group uses the terms gross margin and gross profit interchangeably. Headline gross margin is calculated as Headline PBIT (defined below) as a percentage of gross profit.

Headline earnings

Headline PBT less taxation (excluding exceptional release of prior year tax provisions, net deferred tax credit in relation to the amortisation of acquired intangible assets and other goodwill items, deferred tax on gain on sale of freehold property in New York and tax credit relating to restructuring costs) and non-controlling interests.

Headline operating profit/Headline PBIT

Profit before finance income/costs and revaluation of financial instruments, taxation, investment gains/losses and write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of acquired intangible assets, share of exceptional gains/losses of associates and gains/losses on remeasurement of equity interest on acquisition of controlling interest; and, in 2012, the gain on sale of freehold property in New York, Group restructuring costs and costs incurred in changing the corporate structure of the Group.

Headline PBT

Profit before taxation, investment gains/losses and write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of acquired intangible assets, share of exceptional gains/losses of associates, gains/losses arising from the revaluation of financial instruments, and gains/losses on remeasurement of equity interest on acquisition of controlling interest; and, in 2012, the gain on sale of freehold property in New York, Group restructuring costs and costs incurred in changing the corporate structure of the Group.

Operating margin

Headline operating profit as a percentage of revenue.

Pro forma ('like-for-like')

Pro forma comparisons are calculated as follows: current year, constant currency actual results (which include acquisitions from the relevant date of completion) are compared with prior year, constant currency actual results, adjusted to include the results of acquisitions for the commensurate period in the prior year. The Group uses the terms 'pro forma' and 'like-for-like' interchangeably.