Appendix 1: Preliminary results for the year ended 31 December 2016

Unaudited preliminary consolidated income statement for the year ended 31 December 2016

£ million	Notes	2016	2015	+/(-)%	Constant Currency[1] +/(-)%
Billings		55,245.2	47,631.9	16.0	5.5
Revenue	6	14,388.9	12,235.2	17.6	7.2
Direct costs		(1,991.1)	(1,710.9)	(16.4)	(5.8)
Net sales	6	12,397.8	10,524.3	17.8	7.4
Operating costs	4	(10,334.7)	(8,892.3)	(16.2)	(6.4)
Operating profit		2,063.1	1,632.0	26.4	12.7
Share of results of associates	4	49.8	47.0	6.0	(11.5)
Profit before interest and taxation		2,112.9	1,679.0	25.8	12.0
Finance income	5	80.4	72.4	11.0	2.3
Finance costs	5	(254.5)	(224.1)	(13.6)	(2.0)
Revaluation of financial instruments	5	(48.3)	(34.7)	-	-
Profit before taxation		1,890.5	1,492.6	26.7	12.5
Taxation	7	(388.9)	(247.5)	(57.1)	(39.9)
Profit for the year		1,501.6	1,245.1	20.6	7.2
Attributable to:					
Equity holders of the parent		1,400.1	1,160.2	20.7	7.1
Non-controlling interests		101.5	84.9	(19.6)	(7.4)
		1,501.6	1,245.1	20.6	7.2
Headline PBIT	6,19	2,160.3	1,774.0	21.8	8.5
Net sales margin	6,19	17.4%	16.9%	0.5[2]	0.2[2]
Headline PBT	19	1,986.2	1,622.3	22.4	9.1
Earnings per share					
Basic earnings per ordinary share	9	109.6p	90.0p	21.8	8.0
Diluted earnings per ordinary share	9	108.0p	88.4p	22.2	8.5

[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] Margin points.

Unaudited preliminary consolidated statement of comprehensive income for the year ended 31 December 2016

£ million	2016	2015
Profit for the year	1,501.6	1,245.1
Items that may be reclassified subsequently to profit or loss:		
Exchange adjustments on foreign currency net investments	1,378.0	(275.9)
(Loss)/gain on revaluation of available for sale investments	(93.1)	206.0
	1,284.9	(69.9)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/gain on defined benefit pension plans	(15.9)	33.5
Deferred tax on defined benefit pension plans	(0.4)	(5.2)
	(16.3)	28.3
Other comprehensive gain/(loss) relating to the year	1,268.6	(41.6)
Total comprehensive income relating to the year	2,770.2	1,203.5

Attributable to:		
Equity holders of the parent	2,600.6	1,121.6
Non-controlling interests	169.6	81.9
	2,770.2	1,203.5

Unaudited preliminary consolidated cash flow statement for the year ended 31 December 2016

£ million	Notes	2016	2015
Net cash inflow from operating activities	10	1,773.8	1,359.9
Investing activities			
Acquisitions and disposals	10	(638.8)	(669.5)
Purchase of property, plant and equipment		(252.1)	(210.3)
Purchase of other intangible assets (including capitalised computer software)		(33.0)	(36.1)
Proceeds on disposal of property, plant and equipment		7.7	13.4
Net cash outflow from investing activities		(916.2)	(902.5)
Financing activities			
Share option proceeds		27.2	27.6
Cash consideration for non-controlling interests	10	(58.3)	(23.6)
Share repurchases and buybacks	10	(427.4)	(587.6)
Net (decrease)/increase in borrowings	10	(22.5)	492.0
Financing and share issue costs		(6.4)	(11.4)
Equity dividends paid		(616.5)	(545.8)
Dividends paid to non-controlling interests in subsidiary undertakings		(89.6)	(55.2)
Net cash outflow from financing activities		(1,193.5)	(704.0)
Net decrease in cash and cash equivalents		(335.9)	(246.6)
Translation differences		291.9	(54.4)
Cash and cash equivalents at beginning of year		1,946.6	2,247.6
Cash and cash equivalents at end of year	10	1,902.6	1,946.6

Reconciliation of net cash flow to movement in net debt:			
Net decrease in cash and cash equivalents		(335.9)	(246.6)
Cash outflow/(inflow) from decrease/(increase) in debt financing		28.9	(480.5)
Debt acquired		(144.4)	-
Other movements		(2.3)	(124.0)
Translation differences		(466.0)	(84.3)
Movement of net debt in the year		(919.7)	(935.4)
Net debt at beginning of year		(3,210.8)	(2,275.4)
Net debt at end of year	11	(4,130.5)	(3,210.8)

Unaudited preliminary consolidated balance sheet as at 31 December 2016

£ million	Notes	2016	2015
Non-current assets			
Intangible assets:			
Goodwill	12	13,214.3	10,670.6
Other	13	2,217.3	1,715.4
Property, plant and equipment		968.7	797.7
Interests in associates and joint ventures		1,069.4	758.6
Other investments		1,310.3	1,158.7
Deferred tax assets		140.4	94.1
Trade and other receivables	14	204.9	178.7
		19,125.3	15,373.8
Current assets			
Inventory and work in progress		400.4	329.0
Corporate income tax recoverable		231.2	168.6
Trade and other receivables	14	12,374.5	10,495.4
Cash and short-term deposits		2,436.9	2,382.4
		15,443.0	13,375.4
Current liabilities			
Trade and other payables	15	(15,010.4)	(12,685.0)
Corporate income tax payable		(752.3)	(598.5)
Bank overdrafts and loans		(1,002.5)	(932.0)
		(16,765.2)	(14,215.5)
Net current liabilities		(1,322.2)	(840.1)
Total assets less current liabilities		17,803.1	14,533.7
Non-current liabilities			
Bonds and bank loans		(5,564.9)	(4,661.2)
Trade and other payables	16	(1,273.8)	(891.5)
Deferred tax liabilities		(692.4)	(552.3)
Provisions for post-employment benefits		(276.5)	(229.3)
Provisions for liabilities and charges		(227.9)	(183.6)
		(8,035.5)	(6,517.9)
Net assets		9,767.6	8,015.8
Equity			
Called-up share capital	17	133.2	132.9
Share premium account		562.2	535.3
Other reserves		1,185.2	(9.7)
Own shares		(962.0)	(719.6)
Retained earnings		8,405.9	7,698.5
Equity share owners' funds		9,324.5	7,637.4
Non-controlling interests		443.1	378.4
Total equity		9,767.6	8,015.8

Unaudited preliminary consolidated statement of changes in equity for the year ended 31 December 2016

£ million	Called-up share capital	Share premium account	Other reserves	Own shares	Retained earnings	Total equity share owners' funds	Non-controlling interests	Total
Balance at 1 January 2016	**132.9**	**535.3**	**(9.7)**	**(719.6)**	**7,698.5**	**7,637.4**	**378.4**	**8,015.8**
Ordinary shares issued	0.3	26.9	-	-	-	27.2	-	27.2
Treasury share additions	-	-	-	(274.4)	-	(274.4)	-	(274.4)
Treasury share allocations	-	-	-	3.8	(3.8)	-	-	-
Net profit for the year	-	-	-	-	1,400.1	1,400.1	101.5	1,501.6
Exchange adjustments on foreign currency net investments	-	-	1,309.9	-	-	1,309.9	68.1	1,378.0
Loss on revaluation of available for sale investments	-	-	(93.1)	-	-	(93.1)	-	(93.1)
Actuarial loss on defined benefit pension plans	-	-	-	-	(15.9)	(15.9)	-	(15.9)
Deferred tax on defined benefit pension plans	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Comprehensive income	-	-	1,216.8	-	1,383.8	2,600.6	169.6	2,770.2
Dividends paid	-	-	-	-	(616.5)	(616.5)	(89.6)	(706.1)
Non-cash share-based incentive plans (including share options)	-	-	-	-	106.5	106.5	-	106.5
Tax adjustment on share-based payments	-	-	-	-	3.9	3.9	-	3.9
Net movement in own shares held by ESOP Trusts	-	-	-	28.2	(181.0)	(152.8)	-	(152.8)
Recognition/remeasurement of financial instruments	-	-	(21.9)	-	26.8	4.9	-	4.9
Share purchases - close period commitments	-	-	-	-	8.6	8.6	-	8.6
Acquisition of subsidiaries[1]	-	-	-	-	(20.9)	(20.9)	(15.3)	(36.2)
Balance at 31 December 2016	**133.2**	**562.2**	**1,185.2**	**(962.0)**	**8,405.9**	**9,324.5**	**443.1**	**9,767.6**

Total comprehensive income relating to the year ended 31 December 2016 was £2,770.2 million (2015: £1,203.5 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.

Unaudited preliminary consolidated statement of changes in equity for the year ended 31 December 2016 (continued)

£ 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 2015	**132.6**	**508.0**	**0.3**	**36.2**	**(283.7)**	**7,106.7**	**7,500.1**	**326.7**	**7,826.8**
Ordinary shares issued	0.3	27.3	(0.3)	-	-	0.2	27.5	-	27.5
Treasury share additions	-	-	-	-	(406.0)	-	(406.0)	-	(406.0)
Treasury share allocations	-	-	-	-	3.6	(3.6)	-	-	-
Net profit for the year	-	-	-	-	-	1,160.2	1,160.2	84.9	1,245.1
Exchange adjustments on foreign currency net investments	-	-	-	(272.9)	-	-	(272.9)	(3.0)	(275.9)
Gain on revaluation of available for sale investments	-	-	-	206.0	-	-	206.0	-	206.0
Actuarial gain on defined benefit pension plans	-	-	-	-	-	33.5	33.5	-	33.5
Deferred tax on defined benefit pension plans	-	-	-	-	-	(5.2)	(5.2)	-	(5.2)
Comprehensive (loss)/income	-	-	-	(66.9)	-	1,188.5	1,121.6	81.9	1,203.5
Dividends paid	-	-	-	-	-	(545.8)	(545.8)	(55.2)	(601.0)
Non-cash share-based incentive plans (including share options)	-	-	-	-	-	99.0	99.0	-	99.0
Tax adjustment on share-based payments	-	-	-	-	-	18.0	18.0	-	18.0
Net movement in own shares held by ESOP Trusts	-	-	-	-	(33.5)	(148.1)	(181.6)	-	(181.6)
Recognition/remeasurement of financial instruments	-	-	-	(59.0)	-	(0.7)	(59.7)	-	(59.7)
Share purchases - close period commitments	-	-	-	80.0	-	2.9	82.9	-	82.9
Acquisition of subsidiaries[1]	-	-	-	-	-	(18.6)	(18.6)	25.0	6.4
Balance at 31 December 2015	**132.9**	**535.3**	**-**	**(9.7)**	**(719.6)**	**7,698.5**	**7,637.4**	**378.4**	**8,015.8**

[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 issued by the International Accounting Standards Board (IASB) and with the accounting policies of the Group which were set out on pages 171 to 178 of the 2015 Annual Report and Accounts.

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 2016 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 2015 have been delivered to the Jersey Registrar and received an unqualified auditors' report. The statutory accounts for the year ended 31 December 2016 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 2016 has yet to be signed. The announcement of the preliminary results was approved on behalf of the board of directors on 3 March 2017.

Notes to the unaudited preliminary consolidated financial statements (continued)

3. Currency conversion

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

The 2016 unaudited preliminary consolidated income statement is prepared using, among other currencies, average exchange rates of US$1.3547 to the pound (2015: US$1.5288) and €1.2234 to the pound (2015: €1.3782). The unaudited preliminary consolidated balance sheet as at 31 December 2016 has been prepared using the exchange rates on that day of US$1.2345 to the pound (2015: US$1.4734) and €1.1705 to the pound (2015: €1.3559).

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	**2016**	**2015**
Staff costs	7,784.9	6,652.6
Establishment costs	836.5	726.3
Other operating costs	1,713.3	1,513.4
Total operating costs	10,334.7	8,892.3

Staff costs include:

£ million	**2016**	**2015**
Wages and salaries	5,395.6	4,578.4
Cash-based incentive plans	260.2	231.8
Share-based incentive plans	106.5	99.0
Social security costs	658.1	578.4
Pension costs	178.1	160.0
Severance	34.5	24.0
Other staff costs	1,151.9	981.0
	7,784.9	6,652.6
Staff cost to net sales ratio	62.8%	63.2%

Notes to the unaudited preliminary consolidated financial statements (continued)

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

Other operating costs include:

£ million	2016	2015
Amortisation and impairment of acquired intangible assets	168.4	140.1
Goodwill impairment	27.0	15.1
Gains on disposal of investments and subsidiaries	(44.3)	(131.0)
Gains on remeasurement of equity interests arising from a change in scope of ownership	(232.4)	(165.0)
Investment write-downs	86.1	78.7
Restructuring costs	27.4	106.2
IT asset write-downs	-	29.1

The goodwill impairment charge of £27.0 million (2015: £15.1 million) relates to a number of under-performing businesses in the Group, of which £7.0 million (2015: nil) is in relation to associates. 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 £86.1 million (2015: £78.7 million) includes £79.6 million in relation to comScore Inc, which has not released any financial statements in relation to its 2015 or 2016 results due to an internal investigation by their Audit Committee. Following the announcement of this internal investigation, the market value of comScore Inc fell below the Group's carrying value. Other investment write-downs relate to certain non-core minority investments in the US where forecast financial performance and/or liquidity issues indicate a permanent decline in the recoverability of the Group's investment.

Gains on disposal of investments and subsidiaries of £44.3 million in 2016 include £26.5 million of gains arising on the sale of the Group's equity interest in Grass Roots Group.

Gains on disposal of investments and subsidiaries of £131.0 million in 2015 include £43.6 million of gains arising on the sale of certain Kantar internet measurement businesses to comScore Inc in consideration for newly issued equity in the buyer; £29.7 million of gains arising on the sale of the Group's minority stake in e-Rewards; and £30.6 million of gains arising on the Group's equity interest in Chime Communications plc following its acquisition by Providence Equity Partners in conjunction with WPP.

Gains on remeasurement of equity interests arising from a change in scope of ownership of £232.4 million in 2016 primarily comprise gains of £260.0 million in relation to the reclassification of the Group's interest in the Imagina Group in Spain from other investments to interests in associates, resulting from WPP attaining significant influence in the period; and losses of £23.2 million in relation to the merger of most of the Group's Australian and New Zealand assets with STW Communications Group Limited in Australia. The re-named WPP AUNZ became a listed subsidiary of the Group on 8 April 2016.

Notes to the unaudited preliminary consolidated financial statements (continued)

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

Gains on remeasurement of equity interests arising from a change in scope of ownership in 2015 primarily comprise gains of £131.7 million in relation to the acquisition of a majority stake in IBOPE in Latin America.

In 2016, restructuring costs of £27.4 million predominantly comprise costs resulting from the project to transform and rationalise the Group's IT services and infrastructure.

In the year ended 31 December 2015, restructuring costs of £106.2 million comprise £69.5 million of costs (including £52.0 million of severance costs) arising from a structural reassessment of certain of the Group's operations, primarily in the mature markets of Western Europe; and £36.7 million of costs resulting from the project to transform and rationalise the Group's IT services and infrastructure. In 2015, IT asset write-downs comprise £29.1 million of accelerated depreciation of IT assets in Asia and Europe.

Operating profit includes credits totalling £26.3 million (2015: £31.6 million) relating to the release of excess provisions and other balances established in respect of acquisitions completed prior to 2015.

Share of results of associates include:

£ million	**2016**	**2015**
Share of profit before interest and taxation	97.1	95.2
Share of exceptional losses	(15.2)	(21.8)
Share of interest and non-controlling interests	(4.7)	(1.7)
Share of taxation	(27.4)	(24.7)
	49.8	47.0

Notes to the unaudited preliminary consolidated financial statements (continued)

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

Finance income includes:

£ million	2016	2015
Income from available for sale investments	12.5	18.9
Interest income	67.9	53.5
	80.4	72.4

Finance costs include:

£ million	2016	2015
Net interest expense on pension plans	6.7	7.3
Interest on other long-term employee benefits	2.7	2.5
Interest payable and similar charges	245.1	214.3
	254.5	224.1

Revaluation of financial instruments include:

£ million	2016	2015
Movements in fair value of treasury instruments	(19.5)	(3.7)
Movements in fair value of other derivatives	-	15.9
Revaluation of put options over non-controlling interests	(17.2)	(11.3)
Revaluation of payments due to vendors (earnout agreements)	(11.6)	(35.6)
	(48.3)	(34.7)

Notes to the unaudited preliminary consolidated financial statements (continued)

6. Segmental analysis

Reported contributions by operating sector were as follows:

£ million	2016	2015
Revenue		
Advertising and Media Investment Management	6,547.3	5,552.8
Data Investment Management	2,661.1	2,425.9
Public Relations & Public Affairs	1,101.3	945.8
Branding & Identity, Healthcare and Specialist Communications	4,079.2	3,310.7
	14,388.9	12,235.2
Net sales		
Advertising and Media Investment Management	5,413.5	4,652.0
Data Investment Management	1,994.0	1,768.1
Public Relations & Public Affairs	1,078.8	929.7
Branding & Identity, Healthcare and Specialist Communications	3,911.5	3,174.5
	12,397.8	10,524.3
Headline PBIT[1]		
Advertising and Media Investment Management[3]	1,027.2	859.7
Data Investment Management	351.5	286.1
Public Relations & Public Affairs[3]	179.8	145.2
Branding & Identity, Healthcare and Specialist Communications[3]	601.8	483.0
	2,160.3	1,774.0
Net sales margin[2]		
Advertising and Media Investment Management[3]	19.0%	18.5%
Data Investment Management	17.6%	16.2%
Public Relations & Public Affairs[3]	16.7%	15.6%
Branding & Identity, Healthcare and Specialist Communications[3]	15.4%	15.2%
	17.4%	16.9%

[1] Headline PBIT is defined in note 19.
[2] Net sales margin is defined in note 19.
[3] Prior year headline PBIT and net sales margins have been restated to reflect a reclassification between sectors of one of the Group's associates.

Notes to the unaudited preliminary consolidated financial statements (continued)

6. Segmental analysis (continued)

Reported contributions by geographical area were as follows:

£ million	2016	2015
Revenue		
North America[1]	5,280.8	4,491.2
United Kingdom	1,866.3	1,777.4
Western Continental Europe	2,943.2	2,425.6
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	4,298.6	3,541.0
	14,388.9	12,235.2
Net sales		
North America[1]	4,603.7	3,882.3
United Kingdom	1,587.6	1,504.5
Western Continental Europe	2,425.5	2,016.2
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,781.0	3,121.3
	12,397.8	10,524.3
Headline PBIT[2]		
North America[1]	895.4	728.2
United Kingdom	261.4	243.1
Western Continental Europe	351.7	277.2
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	651.8	525.5
	2,160.3	1,774.0
Net sales margin[3]		
North America[1]	19.4%	18.8%
United Kingdom	16.5%	16.2%
Western Continental Europe	14.5%	13.7%
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	17.2%	16.8%
	17.4%	16.9%

[1] North America includes the US with revenue of £5,005.8 million (2015: £4,257.4 million), net sales of £4,365.1 million (2015: £3,674.3 million) and headline PBIT of £849.4 million (2015: £697.3 million).
[2] Headline PBIT is defined in note 19.
[3] Net sales margin is defined in note 19.

Notes to the unaudited preliminary consolidated financial statements (continued)

7. Taxation

The headline tax rate was 21.0% (2015: 19.0%). The tax rate on reported PBT was 20.6% (2015: 16.6%). The cash tax rate on headline PBT[1] was 20.9% (2015: 18.6%).

The tax charge comprises:

£ million	2016	2015
Corporation tax		
Current year	569.4	403.0
Prior years	(80.3)	(108.4)
	489.1	294.6
Deferred tax		
Current year	(88.0)	(35.8)
Prior years	(12.2)	(11.3)
	(100.2)	(47.1)
Tax charge	388.9	247.5

The calculation of the headline tax rate is as follows:

£ million	2016	2015
Headline PBT[1]	1,986.2	1,622.3
Tax charge	388.9	247.5
Tax charge relating to gains on disposal of investments and subsidiaries	(1.1)	(1.1)
Deferred tax impact of the amortisation of acquired intangible assets and other goodwill items	29.2	35.4
Tax (charge)/credit relating to restructuring costs	(3.0)	26.5
Deferred tax relating to gains on disposal of investments and subsidiaries	3.2	-
Headline tax charge	417.2	308.3
Headline tax rate	21.0%	19.0%

8. Ordinary dividends

The Board has recommended a final dividend of 37.05p (2015: 28.78p) per ordinary share in addition to the interim dividend of 19.55p (2015: 15.91p) per share. This makes a total for the year of 56.60p (2015: 44.69p). Payment of the final dividend of 37.05p per ordinary share will be made on 3 July 2017 to holders of ordinary shares in the Company on 9 June 2017.

[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:

	2016	2015	+/(-)%	Constant Currency +/(-)%
Reported earnings[1] (£ million)	1,400.1	1,160.2		
Headline earnings (£ million) (note 19)	1,467.5	1,229.1		
Average shares used in basic EPS calculation (million)	1,277.8	1,288.5		
Reported EPS	109.6p	90.0p	21.8	8.0
Headline EPS	114.8p	95.4p	20.3	7.2

Diluted EPS

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

	2016	2015	+/(-)%	Constant Currency +/(-)%
Diluted reported earnings (£ million)	1,400.1	1,160.2		
Diluted headline earnings (£ million)	1,467.5	1,229.1		
Average shares used in diluted EPS calculation (million)	1,296.0	1,313.0		
Diluted reported EPS	108.0p	88.4p	22.2	8.5
Diluted headline EPS	113.2p	93.6p	20.9	7.7

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

million	2016	2015
Average shares used in basic EPS calculation	1,277.8	1,288.5
Dilutive share options outstanding	2.4	3.5
Other potentially issuable shares	15.8	21.0
Shares used in diluted EPS calculation	1,296.0	1,313.0

At 31 December 2016 there were 1,331,880,730 (2015: 1,329,366,024) 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 21:

Net cash inflow from operating activities:

£ million	**2016**	**2015**
Profit for the year	1,501.6	1,245.1
Taxation	388.9	247.5
Revaluation of financial instruments	48.3	34.7
Finance costs	254.5	224.1
Finance income	(80.4)	(72.4)
Share of results of associates	(49.8)	(47.0)
Operating profit	2,063.1	1,632.0
Adjustments for:		
Non-cash share-based incentive plans (including share options)	106.5	99.0
Depreciation of property, plant and equipment	220.8	194.7
Goodwill impairment	27.0	15.1
Amortisation and impairment of acquired intangible assets	168.4	140.1
Amortisation of other intangible assets	38.6	33.7
Investment write-downs	86.1	78.7
Gains on disposal of investments and subsidiaries	(44.3)	(131.0)
Gains on remeasurement of equity interests arising from a change in scope of ownership	(232.4)	(165.0)
Losses on sale of property, plant and equipment	0.8	1.1
Operating cash flow before movements in working capital and provisions	2,434.6	1,898.4
Movements in trade working capital	118.3	(161.6)
Movements in other receivables, payables and provisions	(269.6)	(2.5)
Cash generated by operations	2,283.3	1,734.3
Corporation and overseas tax paid	(414.2)	(301.2)
Interest and similar charges paid	(242.1)	(212.0)
Interest received	73.9	61.3
Investment income	12.5	4.9
Dividends from associates	60.4	72.6
	1,773.8	1,359.9

Notes to the unaudited preliminary consolidated financial statements (continued)

10. Analysis of cash flows (continued)

Acquisitions and disposals:

£ million	2016	2015
Initial cash consideration	(424.1)	(463.5)
Cash and cash equivalents acquired (net)	57.3	57.7
Earnout payments	(92.3)	(43.9)
Purchase of other investments (including associates)	(260.2)	(283.2)
Proceeds on disposal of investments	80.5	63.4
Acquisitions and disposals	(638.8)	(669.5)
Cash consideration for non-controlling interests	(58.3)	(23.6)
Net acquisition payments and investments	(697.1)	(693.1)

Share repurchases and buybacks:

£ million	2016	2015
Purchase of own shares by ESOP Trusts	(152.9)	(181.6)
Shares purchased into treasury	(274.5)	(406.0)
	(427.4)	(587.6)

Net (decrease)/increase in borrowings:

£ million	2016	2015
(Decrease)/increase in drawings on bank loans	(30.4)	128.9
Proceeds from issue of £400 million bonds	400.0	-
Repayment of €498 million bonds	(392.1)	-
Proceeds from issues of €600 million bonds	-	858.7
Repayment of €500 million bonds	-	(481.9)
Premium on exchange of €252 million bonds	-	(13.7)
	(22.5)	492.0

Cash and cash equivalents:

£ million	2016	2015
Cash at bank and in hand	2,256.2	2,227.8
Short-term bank deposits	180.7	154.6
Overdrafts[1]	(534.3)	(435.8)
	1,902.6	1,946.6

[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)

11. Net debt

£ million	2016	2015
Cash and short-term deposits	2,436.9	2,382.4
Bank overdrafts and loans due within one year	(1,002.5)	(932.0)
Bonds and bank loans due after one year	(5,564.9)	(4,661.2)
	(4,130.5)	(3,210.8)

The Group estimates that the fair value of corporate bonds is £6,101.4 million at 31 December 2016 (2015: £5,207.4 million). The Group considers that the carrying amount of bank loans approximates their fair value.

The following table is an analysis of future anticipated cash flows in relation to the Group's debt, on an undiscounted basis which, therefore, differs from the carrying value:

£ million	2016	2015
Within one year	(582.9)	(541.7)
Between one and two years	(389.5)	(548.2)
Between two and three years	(686.3)	(325.4)
Between three and four years	(369.1)	(581.6)
Between four and five years	(812.9)	(335.0)
Over five years	(5,144.8)	(4,459.5)
Debt financing (including interest) under the Revolving Credit Facility and in relation to unsecured loan notes	(7,985.5)	(6,791.4)
Short-term overdrafts – within one year	(534.3)	(435.8)
Future anticipated cash flows	(8,519.8)	(7,227.2)
Effect of discounting/financing rates	1,952.4	1,634.0
Debt financing	(6,567.4)	(5,593.2)
Cash and short-term deposits	2,436.9	2,382.4
Net debt	(4,130.5)	(3,210.8)

Notes to the unaudited preliminary consolidated financial statements (continued)

12. Goodwill and acquisitions

Goodwill in relation to subsidiary undertakings increased by £2,543.7 million (2015: £691.2 million) in the year. This movement primarily relates to the effect of currency translation and also 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.

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 2016 and the date these preliminary consolidated financial statements were approved.

13. Other intangible assets

The following are included in other intangibles:

£ million	2016	2015
Brands with an indefinite useful life	1,141.3	968.1
Acquired intangibles	972.5	667.6
Other (including capitalised computer software)	103.5	79.7
	2,217.3	1,715.4

14. Trade and other receivables

Amounts falling due within one year:

£ million	2016	2015
Trade receivables	8,054.2	6,799.4
VAT and sales taxes recoverable	157.2	154.9
Prepayments	310.0	235.0
Accrued income	3,353.8	2,853.8
Fair value of derivatives	14.7	4.6
Other debtors	484.6	447.7
	12,374.5	10,495.4

Amounts falling due after more than one year:

£ million	2016	2015
Prepayments	3.7	1.5
Accrued income	9.5	5.8
Fair value of derivatives	8.3	39.7
Other debtors	183.4	131.7
	204.9	178.7

The Group considers that the carrying amount of trade and other receivables approximates their fair value.

Notes to the unaudited preliminary consolidated financial statements (continued)

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

£ million	2016	2015
Trade payables	10,308.3	8,538.3
Deferred income	1,312.7	1,081.0
Payments due to vendors (earnout agreements)	277.5	126.0
Liabilities in respect of put option agreements with vendors	51.0	51.1
Fair value of derivatives	4.1	0.7
Other creditors and accruals	3,056.8	2,887.9
	15,010.4	12,685.0

The Group considers that the carrying amount of trade and other payables approximates their fair value.

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

£ million	2016	2015
Payments due to vendors (earnout agreements)	699.0	455.3
Liabilities in respect of put option agreements with vendors	246.0	183.3
Fair value of derivatives	1.8	2.3
Other creditors and accruals	327.0	250.6
	1,273.8	891.5

The Group considers that the carrying amount of trade and other payables approximates their fair value.

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

£ million	2016	2015
Within one year	277.5	126.0
Between 1 and 2 years	220.1	104.9
Between 2 and 3 years	170.2	105.1
Between 3 and 4 years	176.6	110.9
Between 4 and 5 years	122.4	122.5
Over 5 years	9.7	11.9
	976.5	581.3

The Group's approach to payments due to vendors is outlined in note 21.

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

£ million	2016	2015
At the beginning of the year	581.3	311.4
Earnouts paid	(92.3)	(43.9)
New acquisitions	359.5	262.2
Revision of estimates taken to goodwill	28.4	19.9
Revaluation of payments due to vendors (note 5)	11.6	35.6
Exchange adjustments	88.0	(3.9)
At the end of the year	976.5	581.3

The Group does not consider there to be any material contingent liabilities as at 31 December 2016.

Notes to the unaudited preliminary consolidated financial statements (continued)

17. Issued share capital – movement in the year

Number of equity ordinary shares (million)	2016	2015
At the beginning of the year	1,329.4	1,325.7
Exercise of share options	2.5	3.7
At the end of the year	1,331.9	1,329.4

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.

19. Non-GAAP measures of performance

Management includes non-GAAP measures as they consider these measures to be both useful and necessary. They are used by management for internal performance analyses; the presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies; and these measures are useful in connection with discussions with the investment community.

Reconciliation of profit before interest and taxation to headline PBIT for the year ended 31 December 2016:

£ million	2016	2015
Profit before interest and taxation	2,112.9	1,679.0
Amortisation and impairment of acquired intangible assets	168.4	140.1
Goodwill impairment	27.0	15.1
Gains on disposal of investments and subsidiaries	(44.3)	(131.0)
Gains on remeasurement of equity interests arising from a change in scope of ownership	(232.4)	(165.0)
Investment write-downs	86.1	78.7
Restructuring costs	27.4	106.2
IT asset write-downs	-	29.1
Share of exceptional losses of associates	15.2	21.8
Headline PBIT	2,160.3	1,774.0
Finance income	80.4	72.4
Finance costs	(254.5)	(224.1)
	(174.1)	(151.7)
Interest cover on headline PBIT	12.4 times	11.7 times

Calculation of headline EBITDA:

£ million	2016	2015
Headline PBIT (as above)	2,160.3	1,774.0
Depreciation of property, plant and equipment	220.8	194.7
Amortisation of other intangible assets	38.6	33.7
Headline EBITDA	2,419.7	2,002.4

Notes to the unaudited preliminary consolidated financial statements (continued)

19. Non-GAAP measures of performance (continued)

Net sales margin before and after share of results of associates:

£ million	Margin	2016	Margin	2015
Net sales		12,397.8		10,524.3
Headline PBIT	17.4%	2,160.3	16.9%	1,774.0
Share of results of associates (excluding exceptional gains/losses)		65.0		68.8
Headline PBIT excluding share of results of associates	16.9%	2,095.3	16.2%	1,705.2

Reconciliation of profit before taxation to headline PBT and headline earnings for the year ended 31 December 2016:

£ million	2016	2015
Profit before taxation	1,890.5	1,492.6
Amortisation and impairment of acquired intangible assets	168.4	140.1
Goodwill impairment	27.0	15.1
Gains on disposal of investments and subsidiaries	(44.3)	(131.0)
Gains on remeasurement of equity interests arising from a change in scope of ownership	(232.4)	(165.0)
Investment write-downs	86.1	78.7
Restructuring costs	27.4	106.2
IT asset write-downs	-	29.1
Share of exceptional losses of associates	15.2	21.8
Revaluation of financial instruments	48.3	34.7
Headline PBT	1,986.2	1,622.3
Headline tax charge (note 7)	(417.2)	(308.3)
Non-controlling interests	(101.5)	(84.9)
Headline earnings	1,467.5	1,229.1
Ordinary dividends	616.5	545.8
Dividend cover on headline earnings	2.4 times	2.3 times

Reconciliation of free cash flow for the year ended 31 December 2016:

£ million	2016	2015
Cash generated by operations (note 10)	2,283.3	1,734.3
Plus:		
Interest received	73.9	61.3
Investment income	12.5	4.9
Dividends from associates	60.4	72.6
Share option proceeds	27.2	27.6
Proceeds on disposal of property, plant and equipment	7.7	13.4
Movements in other receivables, payables and provisions	269.6	2.5
Less:		
Movements in trade working capital	(118.3)	161.6
Interest and similar charges paid	(242.1)	(212.0)
Purchase of property, plant and equipment	(252.1)	(210.3)
Purchase of other intangible assets (including capitalised computer software)	(33.0)	(36.1)
Corporation and overseas tax paid	(414.2)	(301.2)
Dividends paid to non-controlling interests in subsidiary undertakings	(89.6)	(55.2)
Free cash flow	1,585.3	1,263.4

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 2016, the Group has access to £8.2 billion of committed facilities with maturity dates spread over the years 2017 to 2046 as illustrated below:

£ million

		2017	2018	2019	2020	2021+
£ bonds £400m (2.875% '46)	400.0					400.0
US bond $500m (5.625% '43)	405.0					405.0
US bond $300m (5.125% '42)	243.0					243.0
Eurobonds €600m (1.625% '30)	512.6					512.6
Eurobonds €750m (2.25%,'26)	640.8					640.8
US bond $750m (3.75%,'24)	607.5					607.5
Eurobonds €750m (3.0% '23)	640.8					640.8
US bond $500m (3.625% '22)	405.0					405.0
US bond $812m (4.75% '21)	658.0					658.0
Bank revolver ($2,500m)	2,025.1					2,025.1
£ bonds £200m (6.375% '20)	200.0				200.0	
Eurobonds €600m (0.75% '19)	512.6			512.6		
Bank revolver (A$520m)	304.0			304.0		
Eurobonds €252m (0.43% '18)	215.3		215.3			
£ bonds £400m (6.0% '17)	400.0	400.0				
Total committed facilities available	8,169.7	400.0	215.3	816.6	200.0	6,537.8
Drawn down facilities at 31 December 2016	6,047.4	400.0	215.3	719.4	200.0	4,512.7
Undrawn committed credit facilities	2,122.3					
Drawn down facilities at 31 December 2016	6,047.4					
Net cash at 31 December 2016	(1,902.6)					
Other adjustments	(14.3)					
Net debt at 31 December 2016	4,130.5					

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 2015 Annual Report and Accounts and in the opinion of the Board remain relevant at 31 December 2016.

21. Financial instruments

The fair values of financial assets and liabilities are based on quoted market prices where available. Where the market value is not available, the Group has estimated relevant fair values on the basis of publicly available information from outside sources or on the basis of discounted cash flow models where appropriate.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable, or based on observable inputs:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

£ million	**Level 1**	**Level 2**	**Level 3**
Derivatives in designated hedge relationships			
Derivative assets	-	20.0	-
Derivative liabilities	-	(3.0)	-
Held for trading			
Derivative assets	-	3.0	-
Derivative liabilities	-	(2.9)	-
Payments due to vendors (earnout agreements) (note 16)	-	-	(976.5)
Liabilities in respect of put options	-	-	(297.0)
Available for sale			
Other investments	429.3	-	881.0

Notes to the unaudited preliminary consolidated financial statements (continued)

21. Financial instruments (continued)

Reconciliation of level 3 fair value measurements[1]:

£ million	Liabilities in respect of put options	Other investments
1 January 2016	(234.4)	847.3
Losses recognised in the income statement	(17.2)	(1.6)
Losses recognised in other comprehensive income	-	(105.6)
Additions	(42.9)	105.7
Disposals	-	(3.4)
Reclassification from other investments to interests in associates	-	(74.3)
Settlements	44.9	-
Exchange adjustments	(47.4)	112.9
31 December 2016	(297.0)	881.0

Payments due to vendors and liabilities in respect of put options

Future anticipated payments due to vendors in respect of contingent consideration (earnout agreements) are recorded at fair value, which is the present value of the expected cash outflows of the obligations. Liabilities in respect of put option agreements are initially recorded at the present value of the redemption amount in accordance with IAS 32 and subsequently measured at fair value in accordance with IAS 39. Both types of obligations are dependent on the future financial performance of the entity and it is assumed that future profits are in line with directors' estimates. The directors derive their estimates from internal business plans together with financial due diligence performed in connection with the acquisition. At 31 December 2016, the weighted average growth rate in estimating future financial performance was 25.0%, which reflects the prevalence of recent acquisitions in the faster growing markets and new media sectors. The risk adjusted discount rate applied to these obligations at 31 December 2016 was 1.5%.

A one percentage point increase or decrease in the growth rate in estimated future financial performance would increase or decrease the combined liabilities due to earnout agreements and put options by approximately £13.4 million and £17.9 million, respectively. A 0.5 percentage point increase or decrease in the risk adjusted discount rate would decrease or increase the combined liabilities by approximately £16.0 million and £16.4 million, respectively. An increase in the liability would result in a loss in the revaluation of financial instruments (note 5), while a decrease would result in a gain.

Other investments

The fair value of other investments included in level 1 are based on quoted market prices. Other investments included in level 3 are unlisted securities, where market value is not readily available. The Group has estimated relevant fair values on the basis of publicly available information from outside sources or on the basis of discounted cash flow models where appropriate. The sensitivity to changes in unobservable inputs is specific to each individual investment.

---

[1] Payments due to vendors (earnout agreements) are reconciled in note 16.

Notes to the unaudited preliminary consolidated financial statements (continued)

22. Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks and uncertainties affecting the Group for the year ended 31 December 2016 and these are updated and summarised below:

Clients

- The Group competes for clients in a highly competitive industry and client loss or consolidation may have a material adverse effect on the Group's market share and its business, revenues, results of operations, financial condition or prospects.
- The Group receives a significant portion of its revenues from a limited number of large clients and the loss of these clients could have a material adverse effect on the Group's prospects, business, financial condition and results of operations.

Data Security

- Existing and proposed data protection laws may restrict the Group's activities and increase our costs.
- The Group is carrying out an IT transformation project and will rely on third parties for the performance of a significant part of its information technology and operational functions. A failure to provide these functions could have an adverse effect on the Group's business.
- The Group stores, transmits and relies on critical and sensitive data. Security of this type of data is exposed to escalating external threats that are increasing in sophistication, as well as internal breaches.

Financial

- The Group is subject to credit risk through the default of a client or other counterparty.

Operational

- The Group's performance could be adversely impacted if it failed to ensure adequate internal control procedures are in place in relation to the Group's increased media trading.

People and Succession

- The Group's performance could be adversely affected if it were unable to attract and retain key talent or had inadequate talent management and succession planning for key management roles at the parent and operating companies.

Regulatory, Sanctions, Anti-Trust and Taxation

- The Group may be subject to regulations restricting its activities or effecting changes in taxation.
- The Group is subject to anti-corruption, anti-bribery and anti-trust legislation and enforcement in the countries in which it operates.
- Civil liabilities or judgements against the Company or its directors or officers based on United States federal or state securities laws may not be enforceable in the United States or in England and Wales or in Jersey.
- The Group is subject to laws of the United States, EU and other jurisdictions regulating and imposing sanctions on the supply of services to certain countries. Failure to comply with these laws could expose the Group to civil and criminal penalties.

Appendix 2: Preliminary results for the year ended 31 December 2016 in reportable US Dollars[1]

Unaudited illustrative preliminary consolidated income statement for the year ended 31 December 2016

$ million	2016	2015	+/(-)%
Billings	74,439.6	72,766.7	2.3
Revenue	19,379.3	18,693.2	3.7
Direct costs	(2,688.6)	(2,614.3)	(2.8)
Net sales	16,690.7	16,078.9	3.8
Operating costs	(13,989.6)	(13,585.1)	(3.0)
Operating profit	2,701.1	2,493.8	8.3
Share of results of associates	65.3	71.2	(8.3)
Profit before interest and taxation	2,766.4	2,565.0	7.9
Finance income	109.6	110.9	(1.2)
Finance costs	(344.1)	(342.6)	(0.4)
Revaluation of financial instruments	(71.4)	(53.2)	-
Profit before taxation	2,460.5	2,280.1	7.9
Taxation	(516.7)	(378.4)	(36.5)
Profit for the year	1,943.8	1,901.7	2.2
Attributable to:			
Equity holders of the parent	1,808.7	1,771.6	2.1
Non-controlling interests	135.1	130.1	(3.8)
	1,943.8	1,901.7	2.2
Headline PBIT	2,864.6	2,704.3	5.9
Net sales margin	17.2%	16.8%	0.4[2]
Headline PBT	2,630.1	2,472.6	6.4
Reported earnings per share[3]			
Basic earnings per ordinary share	141.5¢	137.5¢	2.9
Diluted earnings per ordinary share	139.6¢	134.9¢	3.5
Headline earnings per share[3]			
Basic earnings per ordinary share	151.6¢	145.2¢	4.4
Diluted earnings per ordinary share	149.5¢	142.5¢	4.9

[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 years presented. Among other currencies, this includes an average exchange rate of US$1.3547 to the pound for the year ended 31 December 2016 (2015: US$1.5288).

[2] Margin points.

[3] 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 2016 in reportable Euros[1]

Unaudited illustrative preliminary consolidated income statement for the year ended 31 December 2016

€ million	2016	2015	+/(-)%
Billings	67,305.1	65,677.2	2.5
Revenue	17,527.2	16,873.7	3.9
Direct costs	(2,429.2)	(2,360.9)	(2.9)
Net sales	15,098.0	14,512.8	4.0
Operating costs	(12,627.2)	(12,253.5)	(3.0)
Operating profit	2,470.8	2,259.3	9.4
Share of results of associates	60.1	64.3	(6.5)
Profit before interest and taxation	2,530.9	2,323.6	8.9
Finance income	99.5	99.5	-
Finance costs	(311.4)	(308.5)	(0.9)
Revaluation of financial instruments	(62.2)	(48.0)	-
Profit before taxation	2,256.8	2,066.6	9.2
Taxation	(469.9)	(341.8)	(37.5)
Profit for the year	1,786.9	1,724.8	3.6
Attributable to:			
Equity holders of the parent	1,665.0	1,607.1	3.6
Non-controlling interests	121.9	117.7	(3.6)
	1,786.9	1,724.8	3.6
Headline PBIT	2,604.2	2,452.8	6.2
Net sales margin	17.2%	16.9%	0.3[2]
Headline PBT	2,392.3	2,243.8	6.6
Reported earnings per share[3]			
Basic earnings per ordinary share	130.3¢	124.7¢	4.5
Diluted earnings per ordinary share	128.5¢	122.4¢	5.0
Headline earnings per share[3]			
Basic earnings per ordinary share	138.1¢	132.0¢	4.6
Diluted earnings per ordinary share	136.1¢	129.5¢	5.1

[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 years presented. Among other currencies, this includes an average exchange rate of €1.2234 to the pound for the year ended 31 December 2016 (2015: €1.3782).

[2] Margin points

[3] 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 4: Preliminary results for the year ended 31 December 2016 in reportable Japanese Yen[1]

Unaudited illustrative preliminary consolidated income statement for the year ended 31 December 2016

¥ billion	**2016**	**2015**	**+/(-)%**
Billings	8,090.4	8,810.5	(8.2)
Revenue	2,106.7	2,264.1	(7.0)
Direct costs	(292.2)	(316.8)	7.8
Net sales	1,814.5	1,947.3	(6.8)
Operating costs	(1,518.4)	(1,644.2)	7.7
Operating profit	296.1	303.1	(2.3)
Share of results of associates	7.3	8.6	(15.1)
Profit before interest and taxation	303.4	311.7	(2.7)
Finance income	12.2	13.3	(8.3)
Finance costs	(37.8)	(41.4)	8.7
Revaluation of financial instruments	(7.1)	(6.5)	-
Profit before taxation	270.7	277.1	(2.3)
Taxation	(56.2)	(46.0)	(22.2)
Profit for the year	214.5	231.1	(7.2)
Attributable to:			
Equity holders of the parent	200.0	215.3	(7.1)
Non-controlling interests	14.5	15.8	8.2
	214.5	231.1	(7.2)
Headline PBIT	311.6	328.3	(5.1)
Net sales margin	17.2%	16.9%	0.3[2]
Headline PBT	286.0	300.2	(4.7)
Reported earnings per share[3]			
Basic earnings per ordinary share	¥156.5	¥167.1	(6.3)
Diluted earnings per ordinary share	¥154.3	¥164.0	(5.9)
Headline earnings per share[3]			
Basic earnings per ordinary share	¥164.9	¥176.3	(6.5)
Diluted earnings per ordinary share	¥162.6	¥173.0	(6.0)

[1] The unaudited consolidated income statement above is presented in reportable Japanese Yen for information purposes only and has been prepared assuming the Japanese Yen is the reporting currency of the Group, whereby local currency results are translated into Japanese Yen at actual monthly average exchange rates in the years presented. Among other currencies, this includes an average exchange rate of ¥147.3525 to the pound for the year ended 31 December 2016 (2015: ¥185.1067).

[2] Margin points

[3] 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. Net debt at a year end is calculated as the sum of the net 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' marketing 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 2016 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.

Net sales/Net sales margin

Net sales are revenue less direct costs. Net sales margin is calculated as headline PBIT (defined below) as a percentage of net sales. The Group has previously used the terms gross margin and gross profit to refer to net sales.

Headline earnings

Headline PBT less headline tax charge and non-controlling interests.

Headline operating profit/Headline PBIT

Profit before finance income/costs and revaluation of financial instruments, taxation, gains/losses on disposal of investments and subsidiaries, investment write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of acquired intangible assets, Group restructuring costs, IT asset write-downs, share of exceptional gains/losses of associates and gains/losses on remeasurement of equity interests arising from a change in scope of ownership.

Headline PBT

Profit before taxation, gains/losses on disposal of investments and subsidiaries, investment write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of acquired intangible assets, Group restructuring costs, IT asset write-downs, share of exceptional gains/losses of associates, gains/losses arising from the revaluation of financial instruments, and gains/losses on remeasurement of equity interests arising from a change in scope of ownership.

Headline tax charge

Taxation excluding tax charge/deferred tax relating to gains on disposal of investments and subsidiaries, deferred tax impact of the amortisation of acquired intangible assets and other goodwill items and tax charge/credit relating to restructuring costs.

Operating margin

Headline operating profit as a percentage of net sales.

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 year in the prior year. The Group uses the terms 'pro forma' and 'like-for-like' interchangeably.