

Our 2013 financial statements

Accounting policies

The consolidated financial statements of WPP plc and its subsidiaries (the Group) for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2013.

The Group's financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

Basis of consolidation

In January 2013, pursuant to a Scheme of Arrangement under Article 25 of the Companies (Jersey) Law 1991, a new parent company was introduced which is now called WPP plc. The previous parent company has been renamed and re-registered as WPP 2012 Limited. The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Accordingly, the results of the Group for the entire year ended 31 December 2013 are shown in the consolidated income statement and the comparative figures for the years ended 31 December 2012 and 2011 are also prepared on this basis. Earnings per share are unaffected by the reorganisation.

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The consolidated financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date. All intra-Group balances, transactions, income and expenses are eliminated in full on consolidation. The results of subsidiary undertakings acquired or disposed of during the period are included or excluded from the consolidated income statement from the effective date of acquisition or disposal.

Goodwill and other intangible assets

Intangible assets comprise goodwill, certain acquired separable corporate brand names, acquired customer relationships, acquired proprietary tools and capitalised computer software not integral to a related item of hardware.

Goodwill represents the excess of fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets, including intangible assets, at the date of their acquisition.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the net present value of future cash flows derived from the underlying assets using a projection period of up to five years for each cash-generating unit. After the projection period a steady growth rate representing an appropriate long-term growth rate for the industry is applied. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Corporate brand names, customer relationships and proprietary tools acquired as part of acquisitions of businesses are capitalised separately from goodwill as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group.

Certain corporate brands of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate

brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and the Group's commitment to develop and enhance their value. The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required.

Amortisation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life as follows:

- Brand names (with finite lives) – 10-20 years.
- Customer-related intangibles – 3-10 years.
- Other proprietary tools – 3-10 years.
- Other (including capitalised computer software) – 3-5 years.

Contingent consideration

Contingent consideration is accounted for in accordance with IFRS 3 Business Combinations.

Future anticipated payments to vendors in respect of contingent consideration (earnout agreements) are initially recorded at fair value which is the present value of the expected cash outflows of the obligations. The obligations are dependent on the future financial performance of the interests acquired (typically over a four- to five-year period following the year of acquisition) and assume the operating companies improve profits 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.

Subsequent adjustments to the fair value are recorded in the consolidated income statement within revaluation of financial instruments. For acquisitions completed prior to 1 January 2010, such adjustments are recorded in the consolidated balance sheet within goodwill.

Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated depreciation and any provision for impairment with the exception of freehold land which is not depreciated. The Group assesses the carrying value of its property, plant and equipment to determine if any impairment has occurred. Where this indicates that an asset may be impaired, the Group applies the requirements of IAS 36 Impairment of Assets in assessing the carrying amount of the asset. This process includes comparing its recoverable amount with its carrying value. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

- Freehold buildings – 50 years.
- Leasehold land and buildings – over the term of the lease or life of the asset, if shorter.
- Fixtures, fittings and equipment – 3-10 years.
- Computer equipment – 3-5 years.

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. In certain circumstances, significant influence may be represented by factors other than ownership and voting rights, such as representation on the Board of Directors.

The Group's share of the profits less losses of associate undertakings net of tax, interest and non-controlling interests is included in the consolidated income statement and the Group's share of net assets is shown within interests in associates in the consolidated balance sheet. The Group's share of the profits less losses and net assets is based on current information produced by the undertakings, adjusted to conform with the accounting policies of the Group.

The Group assesses the carrying value of its associate undertakings to determine if any impairment has occurred. Where this indicates that an investment may be impaired, the Group applies the requirements of IAS 36 in assessing the carrying amount of the

investment. This process includes comparing its recoverable amount with its carrying value.

The Group accounts for joint venture investments under the equity method which is consistent with the Group's treatment of associates.

Other investments

Other investments are designated as 'available for sale' and are shown at fair value with any movements in fair value taken to equity.

On disposal the cumulative gain or loss previously recognised in equity is included in the profit or loss for the year.

Inventory and work in progress

Work in progress is valued at cost, which includes outlays incurred on behalf of clients and an appropriate proportion of directly attributable costs and overheads on incomplete assignments. Provision is made for irrecoverable costs where appropriate. Inventory is stated at the lower of cost and net realisable value.

Trade receivables

Trade receivables are stated net of provisions for bad and doubtful debts.

Foreign currency and interest rate hedging

The Group's policy on interest rate and foreign exchange rate management sets out the instruments and methods available to hedge interest and currency risk exposures and the control procedures in place to ensure effectiveness.

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not

hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 25 contains details of the fair values of the derivative instruments used for hedging purposes.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow or net investment hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

Liabilities in respect of option agreements

Option agreements that allow the Group's equity partners to require the Group to purchase a non-controlling interest are treated as derivatives over equity instruments and are recorded in the consolidated balance sheet at fair value and the valuation is remeasured at each period end. Fair value is based on the present value of expected cash outflows and the movement in the fair value is recognised as income or expense within revaluation of financial instruments in the consolidated income statement.

Derecognition of financial liabilities

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, a financial liability of the Group is only released to the consolidated income statement when the underlying legal obligation is extinguished.

Convertible debt

Convertible debt is assessed according to the substance of the contractual arrangements and is classified into liability and equity elements on the

basis of the initial fair value of the liability element. The difference between this figure and the cash received is classified as equity.

The consolidated income statement charge for the finance cost is spread evenly over the term of the convertible debt so that at redemption the liability equals the redemption value.

Other debt

Other interest-bearing debt is recorded at the proceeds received, net of direct issue costs.

Borrowing costs

Finance costs of borrowing are recognised in the consolidated income statement over the term of those borrowings.

Revenue recognition

Revenue comprises commission and fees earned in respect of amounts billed. Direct costs include fees paid to external suppliers where they are retained to perform part or all of a specific project for a client and the resulting expenditure is directly attributable to the revenue earned. Revenue is stated exclusive of VAT, sales taxes and trade discounts.

Advertising and Media Investment Management

Revenue is typically derived from commissions on media placements and fees for advertising services. Revenue may consist of various arrangements involving commissions, fees, incentive-based revenue or a combination of the three, as agreed upon with each client.

Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. The amount of revenue recognised depends on whether we act as an agent

or as a principal in an arrangement with a client. Where we act as an agent, the revenue recorded is the net amount retained when the fee or commission is earned. Although the Group may bear credit risk in respect of these activities, the arrangements with our clients are such that we consider that we are acting as an agent on their behalf. In such cases, costs incurred with external suppliers (such as media suppliers) are excluded from our revenue. Where the Group acts as a principal and contracts directly with suppliers for media payments and production costs, the revenue recorded is the gross amount billed.

Incentive-based revenue typically comprises both quantitative and qualitative elements; on the element related to quantitative targets, revenue is recognised when the quantitative targets have been achieved; on the element related to qualitative targets, revenue is recognised when the incentive is received or receivable.

The Group receives volume rebates from certain suppliers for transactions entered into on behalf of clients that, based on the terms of the relevant contracts and local law, are either remitted to clients or retained by the Group. If amounts are passed on to clients they are recorded as liabilities until settled or, if retained by the Group, are recorded as revenue when earned.

Data Investment Management

Revenue recognised in proportion to the level of service performed for market research contracts is based on proportional performance. In assessing contract performance, both input and output criteria are reviewed. Costs incurred are used as an objective input measure of performance. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. Costs incurred as a proportion of expected total costs is used as an initial proportional performance measure. This indicative proportional performance measure is subsequently validated against other more

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subjective criteria (i.e. relevant output measures) such as the percentage of interviews completed, percentage of reports delivered to a client and the achievement of any project milestones stipulated in the contract. In the event of divergence between the objective and more subjective measures, the more subjective measures take precedence since these are output measures.

While most of the studies provided in connection with the Group's market research contracts are undertaken in response to an individual client's or group of clients' specifications, in certain instances a study may be developed as an off-the-shelf product offering sold to a broad client base. For these transactions, revenue is recognised when the product is delivered. Where the terms of transaction provide for licensing the product on a subscription basis, revenue is recognised over the subscription period on a straight-line basis or, if applicable, based on usage.

Substantially all services are provided on a fixed price basis. Pricing may also include a provision for a surcharge where the actual labour hours incurred in completing a project are significantly above the labour hours quoted in the project proposal. In instances where this occurs, the surcharge will be included in the total revenue base on which to measure proportional performance when the actual threshold is reached provided that collectability is reasonably assured.

Public Relations & Public Affairs and Branding & Identity, Healthcare and Specialist Communications

Revenue is typically derived from retainer fees and services to be performed subject to specific agreement. Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement. Revenue is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the consolidated income statement revenue and related costs as contract activity progresses.

Taxation

Corporate taxes are payable on taxable profits at current rates. The tax expense represents the sum of the tax currently payable and deferred tax.

The Group is subject to corporate taxes in a number of different jurisdictions and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes based on the best information available and where the anticipated liability is both probable and estimable. Such liabilities are classified as current when the Group expects to settle the liability within 12 months and the remainder as non-current. Any interest and penalties accrued are included in income taxes both in the consolidated income statement and balance sheet. Where the final outcome of such matters differs from the amount recorded, any differences may impact the income tax and deferred tax provisions in the period in which the final determination is made.

The tax laws that apply to the Group's subsidiaries may be amended by the relevant tax authorities. Such potential amendments are regularly monitored and adjustments are made to the Group's tax liabilities and deferred tax assets and liabilities where necessary.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred

tax liabilities are recognised for all taxable temporary differences unless specifically excepted by IAS 12 Income Taxes. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on enacted or substantively enacted legislation. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity or the consolidated statement of comprehensive income, in which case the deferred tax is also dealt with in equity or the consolidated statement of comprehensive income.

Retirement benefit costs

The Group accounts for retirement benefit costs in accordance with IAS 19 (amended): Employee Benefits.

For defined contribution plans, contributions are charged to the consolidated income statement as payable in respect of the accounting period.

For defined benefit plans the amounts charged to operating profit are the current service costs, past service costs, administrative expenses and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the consolidated income statement when the related plan amendment occurs. The interest cost on pension plan liabilities and expected return on plan assets reported in previous years have been replaced with a net interest amount which is shown within finance costs. The net interest is calculated by applying the discount rate to the recognised overall surplus or deficit in the plan.

Actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income.

Where defined benefit plans are funded, the assets of the plan are held separately from those of the Group, in separate independently managed funds. Pension plan assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

Recognition of a surplus in a defined benefit plan is limited based on the economic gain the Company is expected to benefit from in the future by means of a refund or reduction in future contributions to the plan, in accordance with IAS 19 (amended): Employee Benefits.

Finance leases

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the consolidated income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the consolidated income statement as it is incurred.

Operating leases

Operating lease rentals are charged to the consolidated income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

Translation of foreign currencies

Foreign currency transactions arising from normal trading activities are recorded at the rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the consolidated income statement as they arise.

The income statements of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net assets of these companies are translated at year-end exchange rates.

Exchange differences arising from retranslation of the opening net assets and on foreign currency borrowings (to the extent that they hedge the Group's investment in such operations) are reported in the consolidated statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated

as assets and liabilities of the foreign entity and translated at the closing rate.

Share-based payments

The Group issues equity-settled share-based payments (including share options) to certain employees and accounts for these awards in accordance with IFRS 2 Share-Based Payment. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding the fair value of equity settled share-based transactions are set out in notes 22 and 26.

The fair value determined at the grant date is recognised in the consolidated income statement as an expense on a straight-line basis over the relevant vesting period, based on the Group's estimate of the number of shares that will ultimately vest and adjusted for the effect of non-market-based vesting conditions.

New IFRS accounting pronouncements

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9: Financial Instruments;
- IFRS 14: Regulatory Deferral Accounts; and
- IAS 32 (amended): Financial Instruments: Presentation.

The Group does not consider that these Standards and Interpretations will have a significant impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect.

In the current year, the following Standards and Interpretations became effective:

- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IFRS 12: Disclosure of Interests in Other Entities;
- IFRS 13: Fair Value Measurement;

- IAS 1 (amended): Presentation of Financial Statements;
- IAS 27 (revised): Separate Financial Statements; and
- IAS 28 (revised): Investments in Associates and Joint Ventures.

The adoption of these Standards has not led to any changes in the Group's accounting policies.

The Group also adopted IAS 19 (amended): Employee Benefits during the year. As a result, the interest cost on pension plan liabilities and expected return on plan assets reported in previous years have been replaced with a net interest amount. The Group has amended the presentation of prior-year comparative amounts to reflect these requirements. There is no material impact of adopting IAS 19 (amended) on the profit for any of the years presented.

- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Sir Martin Sorrell

Paul Richardson

Group chief executive **Group finance director**

16 April 2014

Critical judgements in applying accounting policies

Management is required to make key decisions and judgements in the process of applying the Group's accounting policies. The most significant areas where such judgements have been necessary are revenue recognition, goodwill and other intangibles, payments due to vendors (earnout agreements), acquisition reserves, taxation and accounting for pension liabilities. Where judgement has been applied, the key factors taken into consideration are disclosed in the accounting policies and the appropriate note in these financial statements.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 £m	2012 £m	2011 £m	2013 \$m ³	2012 \$m ³	2011 \$m ³
Billings¹		46,209.3	44,405.3	44,791.8	72,344.5	70,459.1	71,749.2
Revenue	2	11,019.4	10,373.1	10,021.8	17,251.5	16,459.3	16,053.4
Direct costs		(943.3)	(858.3)	(783.3)	(1,477.0)	(1,361.9)	(1,253.7)
Gross profit	2	10,076.1	9,514.8	9,238.5	15,774.5	15,097.4	14,799.7
Operating costs	3	(8,665.8)	(8,273.7)	(8,046.3)	(13,547.9)	(13,120.8)	(12,896.3)
Operating profit		1,410.3	1,241.1	1,192.2	2,226.6	1,976.6	1,903.4
Share of results of associates	4	68.1	69.4	66.1	107.8	110.3	105.8
Profit before interest and taxation		1,478.4	1,310.5	1,258.3	2,334.4	2,086.9	2,009.2
Finance income	6	64.3	55.9	64.7	101.2	88.7	103.7
Finance costs	6	(267.9)	(269.8)	(264.6)	(418.7)	(427.7)	(424.3)
Revaluation of financial instruments	6	21.0	(4.7)	(50.0)	34.4	(6.5)	(79.2)
Profit before taxation		1,295.8	1,091.9	1,008.4	2,051.3	1,741.4	1,609.4
Taxation	7	(283.7)	(197.2)	(91.9)	(448.1)	(315.4)	(151.1)
Profit for the year		1,012.1	894.7	916.5	1,603.2	1,426.0	1,458.3
Attributable to:							
Equity holders of the parent		936.5	822.7	840.1	1,485.1	1,311.5	1,335.7
Non-controlling interests		75.6	72.0	76.4	118.1	114.5	122.6
		1,012.1	894.7	916.5	1,603.2	1,426.0	1,458.3
Headline PBIT	31	1,661.6	1,531.0	1,429.0	2,620.1	2,439.3	2,281.5
Headline PBIT margin	31	15.1%	14.8%	14.3%	15.2%	14.8%	14.2%
Headline gross margin margin	31	16.5%	16.1%	15.5%	16.6%	16.2%	15.4%
Headline PBT	31	1,458.0	1,317.1	1,229.1	2,302.6	2,100.3	1,960.9

Earnings per share²

Basic earnings per ordinary share	9	72.4p	66.2p	67.6p	114.8¢	105.5¢	107.5¢
Diluted earnings per ordinary share	9	69.6p	62.8p	64.5p	110.4¢	100.0¢	102.6¢

Notes

The accompanying notes form an integral part of this consolidated income statement.

¹ Billings is defined on page 246.

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

³ The consolidated income statement above is also expressed in US dollars for information purposes only and is unaudited. It 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 period presented. Among other currencies, this includes an average exchange rate of US\$1.5646 to the pound sterling for the year 2013 (2012: US\$1.5852, 2011: US\$1.6032).

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	2013 £m	2012 £m	2011 £m
Profit for the year	1,012.1	894.7	916.5
Items that may be reclassified subsequently to profit or loss:			
Exchange adjustments on foreign currency net investments	(372.6)	(305.2)	(256.3)
Gain/(loss) on revaluation of available for sale investments	72.0	(3.5)	11.3
	(300.6)	(308.7)	(245.0)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit pension plans	76.2	(83.9)	(72.0)
Deferred tax on defined benefit pension plans	(1.2)	7.3	0.1
	75.0	(76.6)	(71.9)
Other comprehensive loss for the year	(225.6)	(385.3)	(316.9)
Total comprehensive income for the year	786.5	509.4	599.6
Attributable to:			
Equity holders of the parent	727.0	444.2	529.5
Non-controlling interests	59.5	65.2	70.1
	786.5	509.4	599.6

Note

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated cash flow statement

For the year ended 31 December 2013

	Notes	2013 £m	2012 £m	2011 £m
Net cash inflow from operating activities	11	1,374.2	908.3	665.2
Investing activities				
Acquisitions and disposals	11	(201.4)	(566.5)	(469.8)
Purchases of property, plant and equipment		(240.7)	(290.3)	(216.1)
Purchases of other intangible assets (including capitalised computer software)		(43.8)	(39.8)	(37.1)
Proceeds on disposal of property, plant and equipment		7.3	123.5	13.2
Net cash outflow from investing activities		(478.6)	(773.1)	(709.8)
Financing activities				
Share option proceeds		42.4	56.0	28.8
Cash consideration for non-controlling interests	11	(19.6)	(20.1)	(62.6)
Share repurchases and buy-backs	11	(197.0)	(134.5)	(182.2)
Net increase in borrowings	11	436.8	380.5	301.4
Financing and share issue costs		(19.1)	(8.2)	(11.9)
Equity dividends paid		(397.3)	(306.6)	(218.4)
Dividends paid to non-controlling interests in subsidiary undertakings		(53.2)	(51.9)	(62.2)
Net cash outflow from financing activities		(207.0)	(84.8)	(207.1)
Net increase/(decrease) in cash and cash equivalents		688.6	50.4	(251.7)
Translation differences		(164.7)	(119.3)	(29.9)
Cash and cash equivalents at beginning of year		1,359.3	1,428.2	1,709.8
Cash and cash equivalents at end of year	11	1,883.2	1,359.3	1,428.2
Reconciliation of net cash flow to movement in net debt:				
Net increase/(decrease) in cash and cash equivalents		688.6	50.4	(251.7)
Cash inflow from increase in debt financing		(418.1)	(372.5)	(289.5)
Debt acquired		–	(20.0)	(17.5)
Conversion of bond to equity		449.9	–	–
Other movements		21.0	3.4	(16.4)
Translation differences		(160.6)	(17.7)	(1.3)
Movement of net debt in the year		580.8	(356.4)	(576.4)
Net debt at beginning of year		(2,821.2)	(2,464.8)	(1,888.4)
Net debt at end of year	10	(2,240.4)	(2,821.2)	(2,464.8)

Note

The accompanying notes form an integral part of this consolidated cash flow statement.

Consolidated balance sheet

At 31 December 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Intangible assets:			
Goodwill	12	9,472.8	9,457.2
Other	12	1,667.8	1,827.4
Property, plant and equipment	13	773.3	768.3
Interests in associates and joint ventures	14	792.8	887.2
Other investments	14	270.6	176.5
Deferred tax assets	15	119.4	91.2
Trade and other receivables	17	158.5	245.1
		13,255.2	13,452.9
Current assets			
Inventory and work in progress	16	304.5	348.2
Corporate income tax recoverable		136.0	124.2
Trade and other receivables	17	9,088.1	9,007.0
Cash and short-term deposits		2,221.6	1,945.3
		11,750.2	11,424.7
Current liabilities			
Trade and other payables	18	(10,710.7)	(10,907.8)
Corporate income tax payable		(120.1)	(102.9)
Bank overdrafts and loans	20	(941.4)	(1,085.9)
		(11,772.2)	(12,096.6)
		(22.0)	(671.9)
Net current liabilities			
Total assets less current liabilities			
		13,233.2	12,781.0
Non-current liabilities			
Bonds and bank loans	20	(3,520.6)	(3,680.6)
Trade and other payables	19	(457.6)	(512.0)
Corporate income tax payable		(362.6)	(375.3)
Deferred tax liabilities	15	(650.7)	(680.3)
Provision for post-employment benefits	23	(247.5)	(335.6)
Provisions for liabilities and charges	21	(147.7)	(136.6)
		(5,386.7)	(5,720.4)
		7,846.5	7,060.6
Net assets			
Equity			
Called-up share capital	26	134.9	126.5
Share premium account		483.4	175.9
Shares to be issued		0.5	1.8
Merger reserve		-	(5,135.7)
Other reserves	27	317.3	622.7
Own shares		(253.0)	(166.5)
Retained earnings		6,903.7	11,186.3
Equity share owners' funds		7,586.8	6,811.0
Non-controlling interests		259.7	249.6
Total equity		7,846.5	7,060.6

Note

The accompanying notes form an integral part of this consolidated balance sheet.

The financial statements were approved by the Board of Directors and authorised for issue on 16 April 2014.

Signed on behalf of the Board:

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Called-up share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves ¹ £m	Own shares £m	Retained earnings £m	Total equity share owners' funds £m	Non- controlling interests £m	Total £m
Balance at 1 January 2013	126.5	175.9	1.8	(5,135.7)	622.7	(166.5)	11,186.3	6,811.0	249.6	7,060.6
Reclassification due to Group reconstruction ²	–	(176.0)	–	5,135.7	(2.0)	–	(4,957.7)	–	–	–
Ordinary shares issued	0.7	41.7	(1.3)	–	–	–	1.2	42.3	–	42.3
Share issue/cancellation costs	–	(0.4)	–	–	–	–	–	(0.4)	–	(0.4)
Shares issued on conversion of bond	7.7	442.2	–	–	–	–	–	449.9	–	449.9
Reclassification of convertible bond	–	–	–	–	(44.5)	–	36.1	(8.4)	–	(8.4)
Deferred tax on convertible bond	–	–	–	–	9.7	–	(7.8)	1.9	–	1.9
Treasury share additions	–	–	–	–	–	(17.6)	–	(17.6)	–	(17.6)
Treasury share allocations	–	–	–	–	–	3.3	(3.3)	–	–	–
Net profit for the year	–	–	–	–	–	–	936.5	936.5	75.6	1,012.1
Exchange adjustments on foreign currency net investments	–	–	–	–	(356.5)	–	–	(356.5)	(16.1)	(372.6)
Gain on revaluation of available for sale investments	–	–	–	–	72.0	–	–	72.0	–	72.0
Actuarial gain on defined benefit pension plans	–	–	–	–	–	–	76.2	76.2	–	76.2
Deferred tax on defined benefit pension plans	–	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Comprehensive income	–	–	–	–	(284.5)	–	1,011.5	727.0	59.5	786.5
Dividends paid	–	–	–	–	–	–	(397.3)	(397.3)	(53.2)	(450.5)
Non-cash share-based incentive plans (including share options)	–	–	–	–	–	–	105.4	105.4	–	105.4
Tax adjustment on share-based payments	–	–	–	–	–	–	47.9	47.9	–	47.9
Net movement in own shares held by ESOP Trusts	–	–	–	–	–	(72.2)	(107.2)	(179.4)	–	(179.4)
Recognition/remeasurement of financial instruments	–	–	–	–	(2.4)	–	(0.2)	(2.6)	–	(2.6)
Share purchases – close period commitments	–	–	–	–	18.3	–	–	18.3	–	18.3
Acquisition of subsidiaries ³	–	–	–	–	–	–	(11.2)	(11.2)	3.8	(7.4)
Balance at 31 December 2013	134.9	483.4	0.5	–	317.3	(253.0)	6,903.7	7,586.8	259.7	7,846.5

Notes

The accompanying notes form an integral part of this consolidated statement of changes in equity.

¹ Other reserves are analysed in note 27.

² On 2 January 2013, pursuant to a scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991, a new parent company was introduced. Upon implementation, the Group's share premium account and merger reserve have been transferred to retained earnings.

³ Acquisition of subsidiaries represents movements in retained earnings and non-controlling interests arising from changes in ownership of existing subsidiaries and recognition of non-controlling interests on new acquisitions.

For the year ended 31 December 2012

	Called-up share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves ¹ £m	Own shares £m	Retained earnings £m	Total equity share owners' funds £m	Non- controlling interests £m	Total £m
Balance at 1 January 2012	126.6	105.7	2.4	(5,136.2)	938.9	(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)	-	-	-
Net profit for the year	-	-	-	-	-	-	822.7	822.7	72.0	894.7
Exchange adjustments on foreign currency net investments	-	-	-	-	(298.4)	-	-	(298.4)	(6.8)	(305.2)
Loss on revaluation of available for sale investments	-	-	-	-	(3.5)	-	-	(3.5)	-	(3.5)
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
Comprehensive income	-	-	-	-	(301.9)	-	746.1	444.2	65.2	509.4
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)
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 ²	-	-	-	-	-	-	(21.4)	(21.4)	5.3	(16.1)
Balance at 31 December 2012	126.5	175.9	1.8	(5,135.7)	622.7	(166.5)	11,186.3	6,811.0	249.6	7,060.6

Notes

The accompanying notes form an integral part of this consolidated statement of changes in equity.

¹ Other reserves are analysed in note 27.

² Acquisition of subsidiaries represents movements in retained earnings and non-controlling interests arising from changes in ownership of existing subsidiaries and recognition of non-controlling interests on new acquisitions.

Notes to the consolidated financial statements

For the year ended 31 December 2013

1. General information

WPP plc is a company incorporated in Jersey. The address of the registered office is Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES and the address of the principal executive office is 27 Farm Street, London, United Kingdom, W1J 5RJ. The nature of the Group's operations and its principal activities are set out in note 2. These consolidated financial statements are presented in pounds sterling.

2. Segment information

The Group is a leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services.

The Group is organised into four reportable segments – Advertising and Media Investment Management; Data Investment Management; Public Relations & Public Affairs; and Branding & Identity, Healthcare and Specialist Communications. This last reportable segment includes WPP Digital and direct, digital, promotional and relationship marketing.

IFRS 8 Operating Segments requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group chief executive. Provided certain quantitative and qualitative criteria are fulfilled, IFRS 8 permits the aggregation of these components into reportable segments for the purposes of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the directors have had regard to the similar economic characteristics of certain operating segments, their shared client base, the similar nature of their products or services and their long-term margins, amongst other factors.

Operating sectors

Reported contributions were as follows:

	Revenue ¹ £m	Gross profit £m	Headline PBIT ² £m	Headline PBIT margin %	Headline gross margin ³ %
Other information					
2013					
Advertising and Media Investment Management	4,578.8	4,463.6	824.4	18.0	18.5
Data Investment Management ⁴	2,549.7	1,843.7	263.8	10.3	14.3
Public Relations & Public Affairs	920.7	907.5	133.8	14.5	14.7
Branding & Identity, Healthcare and Specialist Communications	2,970.2	2,861.3	439.6	14.8	15.4
	11,019.4	10,076.1	1,661.6	15.1	16.5
2012					
Advertising and Media Investment Management	4,273.2	4,201.3	754.5	17.7	18.0
Data Investment Management ⁴	2,460.2	1,768.9	246.9	10.0	14.0
Public Relations & Public Affairs	917.1	901.1	136.4	14.9	15.1
Branding & Identity, Healthcare and Specialist Communications	2,722.6	2,643.5	393.2	14.4	14.9
	10,373.1	9,514.8	1,531.0	14.8	16.1
2011					
Advertising and Media Investment Management	4,157.2	4,110.2	667.9	16.1	16.2
Data Investment Management ⁴	2,458.0	1,802.9	258.7	10.5	14.3
Public Relations & Public Affairs	885.4	869.3	142.9	16.1	16.4
Branding & Identity, Healthcare and Specialist Communications	2,521.2	2,456.1	359.5	14.3	14.6
	10,021.8	9,238.5	1,429.0	14.3	15.5

Notes

¹ Intersegment sales have not been separately disclosed as they are not material.

² A reconciliation from reported profit before interest and taxation to headline PBIT is provided in note 31. Reported profit before interest and taxation is reconciled to reported profit before taxation in the consolidated income statement.

³ Headline gross margin margin is defined in note 31.

⁴ Data Investment Management was previously reported as Consumer Insight.

Our 2013 financial statements

Notes to the consolidated financial statements

	Share-based payments £m	Capital additions ¹ £m	Depreciation and amortisation ² £m	Goodwill impairment £m	Share of results of associates £m	Interests in associates and joint ventures £m
Other information						
2013						
Advertising and Media Investment Management	55.5	127.2	102.2	–	35.0	486.3
Data Investment Management ³	19.2	62.8	53.7	–	20.2	105.5
Public Relations & Public Affairs	5.9	14.2	15.3	12.0	1.5	45.3
Branding & Identity, Healthcare and Specialist Communications	24.8	70.2	63.5	11.3	11.4	155.7
	105.4	274.4	234.7	23.3	68.1	792.8
2012						
Advertising and Media Investment Management	49.3	198.4	97.1	0.7	34.7	566.9
Data Investment Management ³	16.6	60.5	55.5	–	18.6	102.4
Public Relations & Public Affairs	4.9	12.4	15.7	31.3	2.3	47.9
Branding & Identity, Healthcare and Specialist Communications	22.0	66.9	56.4	–	13.8	170.0
	92.8	338.2	224.7	32.0	69.4	887.2
2011						
Advertising and Media Investment Management	44.5	112.7	94.2	–	36.4	549.9
Data Investment Management ³	12.7	63.1	49.8	–	16.3	101.3
Public Relations & Public Affairs	3.9	15.4	15.8	–	3.2	42.6
Branding & Identity, Healthcare and Specialist Communications	17.7	62.0	51.7	–	10.2	107.5
	78.8	253.2	211.5	–	66.1	801.3

Notes

¹ Capital additions include purchases of property, plant and equipment and other intangible assets (including capitalised computer software).

² Depreciation of property, plant and equipment and amortisation of other intangible assets.

³ Data Investment Management was previously reported as Consumer Insight.

	Segment assets £m	Unallocated corporate assets ¹ £m	Assets Consolidated total assets £m	Segment liabilities £m	Unallocated corporate liabilities ¹ £m	Liabilities Consolidated total liabilities £m
Balance sheet						
2013						
Advertising and Media Investment Management	11,787.6			(8,919.1)		
Data Investment Management ²	3,330.2			(960.0)		
Public Relations & Public Affairs	1,693.7			(350.6)		
Branding & Identity, Healthcare and Specialist Communications	5,716.9			(1,333.8)		
	22,528.4	2,477.0	25,005.4	(11,563.5)	(5,595.4)	(17,158.9)
2012						
Advertising and Media Investment Management	12,013.9			(9,152.7)		
Data Investment Management ²	3,371.4			(1,004.0)		
Public Relations & Public Affairs	1,724.2			(370.8)		
Branding & Identity, Healthcare and Specialist Communications	5,607.4			(1,364.5)		
	22,716.9	2,160.7	24,877.6	(11,892.0)	(5,925.0)	(17,817.0)
2011						
Advertising and Media Investment Management	12,075.9			(9,331.8)		
Data Investment Management ²	3,525.3			(1,058.2)		
Public Relations & Public Affairs	1,825.0			(411.4)		
Branding & Identity, Healthcare and Specialist Communications	5,147.6			(1,353.5)		
	22,573.8	2,121.1	24,694.9	(12,154.9)	(5,645.7)	(17,800.6)

Notes

¹ Included in unallocated corporate assets and liabilities are corporate income tax, deferred tax and net interest-bearing debt.

² Data Investment Management was previously reported as Consumer Insight.

Our 2013 financial statements

Notes to the consolidated financial statements

Contributions by geographical area were as follows:

	2013 £m	2012 £m	2011 £m
Revenue¹			
North America ⁴	3,744.7	3,546.5	3,388.2
UK	1,414.0	1,275.2	1,183.5
Western Continental Europe	2,592.6	2,439.2	2,505.1
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,268.1	3,112.2	2,945.0
	11,019.4	10,373.1	10,021.8

Gross profit

North America ⁴	3,547.0	3,365.0	3,227.1
UK	1,303.9	1,155.7	1,079.1
Western Continental Europe	2,217.8	2,121.5	2,210.5
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,007.4	2,872.6	2,721.8
	10,076.1	9,514.8	9,238.5

	Margin		Margin		Margin	
Headline PBIT²						
North America ⁴	16.5%	616.5	16.3%	578.6	15.5%	525.6
UK	14.5%	204.7	13.6%	173.3	14.0%	165.3
Western Continental Europe	10.5%	272.0	10.4%	252.9	11.3%	284.0
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	17.4%	568.4	16.9%	526.2	15.4%	454.1
	15.1%	1,661.6	14.8%	1,531.0	14.3%	1,429.0

	Margin		Margin		Margin	
Headline gross margin margin³						
North America ⁴	17.4%		17.2%		16.3%	
UK	15.7%		15.0%		15.3%	
Western Continental Europe	12.3%		11.9%		12.8%	
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	18.9%		18.3%		16.7%	
	16.5%		16.1%		15.5%	

Notes

¹ Intersegment sales have not been separately disclosed as they are not material.

² Headline PBIT is defined in note 31.

³ Headline gross margin margin is defined in note 31.

⁴ North America includes the US with revenue of £3,498.1 million (2012: £3,309.4 million, 2011: £3,149.9 million), gross profit of £3,310.8 million (2012: £3,138.7 million, 2011: £2,997.6 million) and headline PBIT of £582.6 million (2012: £547.8 million, 2011: £490.2 million).

	2013 £m	2012 £m
Non-current assets¹		
North America ²	5,125.5	5,131.9
UK	1,772.2	1,766.7
Western Continental Europe	3,562.6	3,590.3
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	2,620.2	2,731.1
	13,080.5	13,220.0

Notes

¹ Non-current assets excluding financial instruments and deferred tax.

² North America includes the US with non-current assets of £4,479.5 million (2012: £4,534.4 million).

3. Operating costs

	2013 £m	2012 £m	2011 £m
Staff costs (note 5)	6,477.1	6,106.1	5,872.5
Establishment costs	727.4	690.6	674.1
Other operating costs (net)	1,461.3	1,477.0	1,499.7
Total operating costs	8,665.8	8,273.7	8,046.3

Operating costs include:

Goodwill impairment (note 12)	23.3	32.0	–
Investment write-downs	0.4	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	5.0	93.4	–
Amortisation and impairment of acquired intangible assets (note 12)	179.8	171.9	172.0
Amortisation of other intangible assets (note 12)	32.7	33.7	25.7
Depreciation of property, plant and equipment	195.5	184.2	178.7
(Gains)/losses on sale of property, plant and equipment	(0.4)	0.7	(0.9)
Gains on disposal of investments	(6.0)	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(30.0)	(5.3)	(31.6)
Net foreign exchange (gains)/losses	(1.1)	7.7	1.1

Operating lease rentals:

Land and buildings	483.0	464.6	459.6
Sublease income	(13.2)	(23.0)	(29.1)
	469.8	441.6	430.5
Plant and machinery	21.1	21.9	23.0
	490.9	463.5	453.5

In 2013, operating profit includes credits totalling £19.9 million (2012: £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 2012. Further details of the Group's approach to acquisition reserves, as required by IFRS 3 Business Combinations, are given in note 28.

Investment write-downs of £0.4 million (2012: £19.6 million, 2011: £32.8 million) 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.

In 2013, the Group incurred restructuring costs of £5.0 million as a result of the continuing rationalisation of its IT infrastructure, a project initiated in 2012. Restructuring costs in 2012 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.

All of the operating costs of the Group are related to administrative expenses.

Auditors' remuneration:

	2013 £m	2012 £m	2011 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	1.4	1.4	1.4
The audit of the Company's subsidiaries pursuant to legislation	15.1	14.6	15.3
	16.5	16.0	16.7
Other services pursuant to legislation	3.1	3.1	3.1
Fees payable to the auditors pursuant to legislation	19.6	19.1	19.8
Tax advisory services	2.3	2.5	2.3
Tax compliance services	1.2	1.0	1.1
	3.5	3.5	3.4
Corporate finance services	0.2	0.5	0.5
Other services ¹	4.8	3.9	4.7
Total non-audit fees	8.5	7.9	8.6
Total fees	28.1	27.0	28.4

Note

¹ Other services include audits for earnout purposes and services for expatriate employees.

Minimum committed annual rentals

Amounts payable in 2014 under leases will be as follows:

	Plant and machinery			Land and buildings		
	2014 £m	2013 £m	2012 £m	2014 £m	2013 £m	2012 £m
In respect of operating leases which expire:						
- within one year	4.1	4.1	5.5	26.3	34.8	27.4
- within two to five years	13.1	13.0	13.2	195.2	166.1	190.7
- after five years	0.1	0.2	0.5	139.7	145.4	143.6
	17.3	17.3	19.2	361.2	346.3	361.7

Future minimum annual amounts payable under all lease commitments in existence at 31 December 2013 are as follows:

	Minimum rental payments ¹ £m	Less sub-let rentals £m	Net payment £m
Year ending 31 December			
2014	378.5	(6.5)	372.0
2015	310.5	(4.7)	305.8
2016	257.5	(3.3)	254.2
2017	209.5	(2.0)	207.5
2018	197.8	(0.6)	197.2
Later years	1,187.4	(0.4)	1,187.0
	2,541.2	(17.5)	2,523.7

Note

¹ During 2013, WPP signed a lease with rental commitments of £487.3 million (2017: £2.1 million, 2018: £25.1 million and 2019 and after: £460.1 million) that have been included in the table above. The lease is contingent upon the developer obtaining financing to construct the building.

4. Share of results of associates

Share of results of associates include:

	2013 £m	2012 £m	2011 £m
Share of profit before interest and taxation	111.0	105.1	99.9
Share of exceptional (losses)/gains	(10.7)	(3.0)	2.1
Share of interest and non-controlling interests	(4.6)	(1.6)	(2.5)
Share of taxation	(27.6)	(31.1)	(33.4)
	68.1	69.4	66.1

5. Our people

Our staff numbers averaged 117,115 for the year ended 31 December 2013 against 114,490 in 2012 and 109,971 in 2011, including acquisitions. Their geographical distribution was as follows:

	2013	2012	2011
North America	28,093	27,782	27,540
UK	11,925	11,413	10,761
Western Continental Europe	23,559	23,322	22,298
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	53,538	51,973	49,372
	117,115	114,490	109,971

Their operating sector distribution was as follows:

	2013	2012	2011
Advertising and Media Investment Management	49,505	48,662	47,252
Data Investment Management ¹	29,586	28,989	29,204
Public Relations & Public Affairs	8,298	8,437	7,869
Branding & Identity, Healthcare and Specialist Communications	29,726	28,402	25,646
	117,115	114,490	109,971

Note

¹ Data Investment Management was previously reported as Consumer Insight.

At the end of 2013 staff numbers were 119,116 (2012: 115,711, 2011: 113,615). Including all employees of associated undertakings, this figure was approximately 175,000 at 31 December 2013 (2012: 165,000, 2011: 158,000).

Our 2013 financial statements

Notes to the consolidated financial statements

Staff costs include:

	2013	2012	2011
	£m	£m	£m
Wages and salaries	4,481.4	4,289.7	4,079.4
Cash-based incentive plans	222.2	198.1	259.4
Share-based incentive plans (note 22)	105.4	92.8	78.8
Social security costs	577.3	524.7	499.3
Pension costs (note 23)	151.3	148.7	135.4
Severance	26.9	50.8	53.9
Other staff costs ¹	912.6	801.3	766.3
	6,477.1	6,106.1	5,872.5
Staff cost to revenue ratio	58.8%	58.9%	58.6%

Note

¹ Freelance and temporary staff costs are included in other staff costs.

Included above are charges of £16.9 million (2012: £15.6 million, 2011: £9.9 million) for share-based incentive plans in respect of key management personnel (who comprise the directors of the Group). Further details of compensation for key management personnel are disclosed on pages 130 to 165.

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

Finance income includes:

	2013	2012	2011
	£m	£m	£m
Income from available for sale investments	10.1	1.2	0.6
Interest income	54.2	54.7	64.1
	64.3	55.9	64.7

Finance costs include:

	2013	2012	2011
	£m	£m	£m
Net interest expense on pension plans ¹ (note 23)	11.4	11.3	11.2
Interest on other long-term employee benefits	1.7	1.7	1.8
Interest payable and similar charges ²	254.8	256.8	251.6
	267.9	269.8	264.6

Revaluation of financial instruments³ include:

	2013	2012	2011
	£m	£m	£m
Movements in fair value of treasury instruments	6.3	(14.8)	(12.7)
Revaluation of put options over non-controlling interests	(1.1)	(5.1)	(30.9)
Revaluation of payments due to vendors (earnout agreements)	15.8	15.2	(6.4)
	21.0	(4.7)	(50.0)

Notes

¹ Comparative figures have been restated to reflect the requirements of IAS 19 (amended): Employee Benefits.

² Interest payable and similar charges are payable on bank overdrafts, bonds and bank loans held at amortised cost.

³ Financial instruments are held at fair value through profit and loss.

The majority of the Group's long-term debt is represented by \$3,081 million of US dollar bonds at an average interest rate of 5.51%, €2,000 million of Eurobonds at an average interest rate of 4.92% and £600 million of sterling bonds including convertible bonds at an average interest rate of 6.13%.

Average borrowings under the Revolving Credit Facilities (note 10) amounted to the equivalent of \$2 million at an average interest rate of 1.24% inclusive of margin.

Average borrowings under the US Commercial Paper Program (note 10) amounted to \$25 million at an average interest rate of 0.34% inclusive of margin.

7. Taxation

The headline tax rate was 20.2% (2012: 21.2%) and is defined below. The tax rate on reported PBT was 21.9% (2012: 18.1%).

Cash taxes paid in the year were £273.3 million (2012: £257.0 million). The cash tax rate on headline PBT was 18.7% (2012: 19.5%).

The tax charge is based on the profit for the year and comprises:

	2013	2012	2011
	£m	£m	£m
Corporation tax			
Current year	359.1	335.5	310.3
Prior years	(48.1)	(41.7)	(47.7)
Exceptional release of prior-year provisions	-	-	(106.1)
Tax credit relating to restructuring costs	-	(15.7)	-
	311.0	278.1	156.5
Deferred tax			
Current year	(9.0)	(14.4)	4.5
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	(10.6)	(86.0)	(72.4)
Deferred tax on gain on sale of freehold property in New York	-	20.0	-
	(19.6)	(80.4)	(67.9)
Prior years	(7.7)	(0.5)	3.3
	(27.3)	(80.9)	(64.6)
Tax charge	283.7	197.2	91.9

In 2011, the tax rate on reported PBT was significantly lower than the headline tax rate, primarily due to the resolution of historic tax liabilities. The release of prior-year corporate tax provisions resulted from the resolution of a number of open matters. Based on the size of this release, it was classified as an exceptional item and therefore excluded from the calculation of headline earnings and headline tax rate.

The tax charge for the year can be reconciled to profit before taxation in the consolidated income statement as follows:

	2013 £m	2012 £m	2011 £m
Profit before taxation	1,295.8	1,091.9	1,008.4
Tax at the corporation tax rate of 23.25% ¹	301.3	273.0	252.1
Tax effect of share of results of associates	(15.8)	(17.4)	(16.5)
Tax effect of expenses that are not deductible/(taxable) in determining taxable profit	3.4	(7.5)	13.0
Effect of different tax rates of subsidiaries operating in other jurisdictions	17.6	13.9	9.2
Origination and reversal of temporary differences not previously recognised	35.5	(39.2)	20.2
Tax losses not utilised in the year	40.6	45.4	49.3
Tax effect of utilisation of tax losses not previously recognised	(28.3)	(18.6)	(41.4)
Tax effect of recognition of tax losses not previously recognised	(14.8)	(10.2)	(43.5)
Net release of prior-year provisions in relation to acquired businesses	(11.6)	(20.6)	(21.4)
Other prior-year adjustments	(44.2)	(21.6)	(23.0)
Exceptional release of prior-year provisions	-	-	(106.1)
Tax charge	283.7	197.2	91.9
Effective tax rate on profit before tax	21.9%	18.1%	9.1%

The calculation of the headline tax rate is as follows:

	2013 £m	2012 £m	2011 £m
Headline PBT ¹	1,458.0	1,317.1	1,229.1
Tax charge	283.7	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	10.6	86.0	72.4
Exceptional release of prior-year provisions	-	-	106.1
Headline tax charge	294.3	278.9	270.4
Headline tax rate	20.2%	21.2%	22.0%

Notes

¹ The parent company of the Group was tax resident in the UK for 2013, and tax resident in Ireland for 2012 and 2011. As such, the tax rate in the tax reconciliation for 2013 is the blended UK corporation tax rate of 23.25%. For 2012 and 2011, the tax rate is the Irish non-trading corporation tax rate of 25%.

² Headline PBT is defined in note 31.

8. Ordinary dividends

Amounts recognised as distributions to equity holders in the year:

Per share	2013	2012	2011	2013	2012	2011
	Pence per share			£m	£m	£m
2012 Final dividend ¹	19.71p	17.14p	11.82p	258.0	212.8	147.3
2013 Interim dividend ²	10.56p	8.80p	7.46p	139.3	109.4	92.2
	30.27p	25.94p	19.28p	397.3	322.2	239.5

Per ADR ³	2013	2012	2011	2013	2012	2011
	Cents per share			\$m	\$m	\$m
2012 Final dividend ¹	156.22¢	137.39¢	91.37¢	409.0	341.2	227.7
2013 Interim dividend ²	82.61¢	69.75¢	59.80¢	218.0	173.5	147.8
	238.83¢	207.14¢	151.17¢	627.0	514.7	375.5

Proposed final dividend for the year ended 31 December 2013:

Per share	2013	2012	2011
	Pence per share		
Final dividend ¹	23.65p	19.71p	17.14p

Per ADR ³	2013	2012	2011
	Cents per ADR		
Final dividend ¹	185.01¢	156.22¢	137.39¢

Notes

¹ Second interim dividend in 2011 and 2010.

² First interim dividend in 2012 and 2011.

³ These figures have been translated for convenience purposes only, using the approximate average rate for the year shown on page 200. This conversion should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

The payment of dividends will not have any tax consequences for the Group.

9. Earnings per share

Basic EPS

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

	2013	2012	2011
Reported earnings ¹ (£m)	936.5	822.7	840.1
Headline earnings (£m) (note 31)	1,088.1	966.2	882.3
Average shares used in basic EPS calculation (m)	1,293.8	1,243.4	1,242.7
Reported EPS	72.4p	66.2p	67.6p
Headline EPS	84.1p	77.7p	71.0p

Note

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

Diluted EPS

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

	2013	2012	2011
Diluted reported earnings (£m)	947.1	848.8	866.2
Diluted headline earnings (£m)	1,098.7	992.3	908.4
Average shares used in diluted EPS calculation (m)	1,360.3	1,352.6	1,342.2
Diluted reported EPS	69.6p	62.8p	64.5p
Diluted headline EPS	80.8p	73.4p	67.7p

Diluted EPS has been calculated based on the diluted reported and diluted headline earnings amounts above. On 19 May 2009 the Group issued £450 million 5.75% convertible bonds due May 2014. During the year ended 31 December 2013, these bonds were converted into 76.5 million shares. For the year ended 31 December 2013 these convertible bonds were dilutive and earnings were consequently increased by £10.6 million (2012: £26.1 million, 2011: £26.1 million) for the purpose of the calculation of diluted earnings. In addition, at 31 December 2013, options to purchase 6.0 million ordinary shares (2012: 6.3 million, 2011: 4.0 million) were outstanding, but were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of the Group's shares and, therefore, their inclusion would have been accretive.

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

	2013 m	2012 m	2011 m
Average shares used in basic EPS calculation	1,293.8	1,243.4	1,242.7
Dilutive share options outstanding	6.8	4.9	4.5
Other potentially issuable shares	30.8	27.8	18.5
£450 million 5.75% convertible bonds	28.9	76.5	76.5
Shares used in diluted EPS calculation	1,360.3	1,352.6	1,342.2

At 31 December 2013 there were 1,348,733,317 ordinary shares in issue.

10. Sources of finance

The following table summarises the equity and debt financing of the Group, and changes during the year:

	Shares		Debt	
	2013 £m	2012 £m	2013 £m	2012 £m
Analysis of changes in financing				
Beginning of year	302.4	232.3	4,180.5	3,893.0
Ordinary shares issued	42.4	56.0	-	-
Reclassification due to Group reconstruction ¹	(176.0)	-	-	-
Share cancellations	-	(0.7)	-	-
Treasury share cancellations	-	(0.6)	-	-
Share issue/cancellation costs	(0.4)	(0.2)	-	-
Shares issued on conversion of bond	449.9	-	-	-
Scrip dividend	-	15.6	-	-
Net (decrease)/increase in drawings on bank loans, corporate bonds and convertible bonds	-	-	(13.1)	380.5
Amortisation of financing costs included in net debt	-	-	8.3	6.8
Debt acquired	-	-	-	20.0
Other movements	-	-	(48.0)	(18.2)
Exchange adjustments	-	-	(4.1)	(101.6)
End of year	618.3	302.4	4,123.6	4,180.5

Note

¹ Further details on the Group reconstruction are given in note 26. The above table excludes bank overdrafts which fall within cash and cash equivalents for the purposes of the consolidated cash flow statement.

Shares

At 31 December 2013, the Company's share base was entirely composed of ordinary equity share capital and share premium of £618.3 million (2012: £302.4 million), further details of which are disclosed in note 26.

Debt

US\$ bonds The Group has in issue \$369 million of 5.875% bonds due June 2014, \$600 million of 8% bonds due September 2014, \$812 million of 4.75% bonds due November 2021, \$500 million of 3.625% bonds due September 2022 and \$300 million of 5.125% bonds due September 2042. In November 2013, the Group issued \$500 million of 5.625% bonds due November 2043.

Eurobonds The Group has in issue €500 million of 5.25% bonds due January 2015 and €750 million of 6.625% bonds due May 2016. In November 2013, the Group issued €750 million of 3% bonds due November 2023.

Sterling bonds The Group has in issue £400 million of 6% bonds due April 2017 and £200 million of 6.375% bonds due November 2020.

Revolving Credit Facilities The Group has a five-year Revolving Credit Facility of \$1.2 billion and £475 million due November 2016. The Group's borrowing under these facilities, which are drawn down predominantly in US dollars and pounds sterling, averaged the equivalent of \$2 million in 2013. The Group had available undrawn committed credit facilities of £1,199.4 million at December 2013 (2012: £1,021.5 million).

Borrowings under the Revolving Credit Facilities are governed by certain financial covenants based on the results and financial position of the Group.

US Commercial Paper Program

The Group operates a commercial paper program using the Revolving Credit Facility as a backstop. The average commercial paper outstanding during the year was \$25.0 million. There was no US Commercial Paper outstanding at 31 December 2013.

Convertible bonds

At 31 December 2012 the Group had in issue £450 million of 5.75% convertible bonds due May 2014. During 2013, \$449.9 million of these bonds were converted into 76,513,563 WPP ordinary shares. The remaining £0.1 million was repaid in November 2013 due to the early redemption of all of the outstanding convertible bonds.

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 fair value and carrying value:

	2013 £m	2012 £m
Within one year	(807.8)	(721.4)
Between one and two years	(575.3)	(1,244.8)
Between two and three years	(757.5)	(529.6)
Between three and four years	(500.0)	(707.4)
Between four and five years	(92.0)	(465.1)
Over five years	(2,968.3)	(1,610.3)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	(5,700.9)	(5,278.6)
Short-term overdrafts – within one year	(338.4)	(586.0)
Future anticipated cash flows	(6,039.3)	(5,864.6)
Effect of discounting/financing rates	1,577.3	1,098.1
Debt financing	(4,462.0)	(4,766.5)
Cash and short-term deposits	2,221.6	1,945.3
Net debt	(2,240.4)	(2,821.2)

Analysis of fixed and floating rate debt by currency including the effect of interest rate and cross-currency swaps:

2013 Currency	£m	Fixed rate ¹	Floating basis	Period (months)
\$ – fixed	2,177.4	5.54%	n/α	119
– floating	233.1	n/α	LIBOR	n/α
£ – fixed	100.0	7.50%	n/α	62
– floating	200.0	n/α	LIBOR	n/α
€ – fixed	1,331.8	4.86%	n/α	70
– floating	108.0	n/α	EURIBOR	n/α
Other	(26.7)	n/α	n/α	n/α
	4,123.6			

Note

¹ Weighted average. These rates do not include the effect of gains on interest rate swap terminations that are written to income over the life of the original instrument. At 31 December 2013 the amount still to be written to income was £0.2 million (2012: £0.7 million) in respect of US dollar swap terminations, to be written to income evenly until June 2014.

2012		Fixed	Floating	Period
Currency	£m	rate ¹	basis	(months) ¹
\$	- fixed	1,913.0	5.53%	n/α
	- floating	444.0	n/α	LIBOR
£	- fixed	550.0	6.07%	n/α
	- floating	200.0	n/α	LIBOR
€	- fixed	690.7	6.50%	n/α
	- floating	344.2	n/α	EURIBOR
¥	- fixed	64.0	2.07%	n/α
Other	(25.4)	n/α	n/α	n/α
	4,180.5			

Note

¹ Weighted average. These rates do not include the effect of gains on interest rate swap terminations that are written to income over the life of the original instrument.

The following table is an analysis of future anticipated cash flows in relation to the Group's financial derivatives, which include interest rate swaps, cash flow hedges and other foreign exchange swaps:

	Financial liabilities		Financial assets	
	Payable £m	Receivable £m	Payable £m	Receivable £m
2013				
Within one year	376.6	311.9	772.8	859.9
Between one and two years	445.8	352.7	530.5	619.5
Between two and three years	1.1	0.7	4.6	12.4
Between three and four years	26.1	25.6	228.3	237.4
Between four and five years	-	-	-	-
Over five years	-	-	-	-
	849.6	690.9	1,536.2	1,729.2
	Financial liabilities		Financial assets	
	Payable £m	Receivable £m	Payable £m	Receivable £m
2012				
Within one year	333.0	262.7	773.9	865.8
Between one and two years	339.9	280.8	753.5	839.8
Between two and three years	454.1	352.5	525.9	608.7
Between three and four years	1.1	0.4	2.4	12.4
Between four and five years	26.1	25.4	226.7	237.4
Over five years	-	-	-	-
	1,154.2	921.8	2,282.4	2,564.1

11. Analysis of cash flows

The following tables analyse the items included within the main cash flow headings on page 202.

Net cash from operating activities:

	2013 £m	2012 £m	2011 £m
Profit for the year	1,012.1	894.7	916.5
Taxation	283.7	197.2	91.9
Revaluation of financial instruments	(21.0)	4.7	50.0
Finance costs	267.9	269.8	264.6
Finance income	(64.3)	(55.9)	(64.7)
Share of results of associates	(68.1)	(69.4)	(66.1)
Operating profit	1,410.3	1,241.1	1,192.2
Adjustments for:			
Non-cash share-based incentive plans (including share options)	105.4	92.8	78.8
Depreciation of property, plant and equipment	202.0	191.0	185.8
Impairment of goodwill	23.3	32.0	-
Amortisation and impairment of acquired intangible assets	179.8	171.9	172.0
Amortisation of other intangible assets	32.7	33.7	25.7
Investment write-downs	0.4	19.6	32.8
Gains on disposal of investments	(6.0)	(26.8)	(0.4)
Gains on remeasurement of equity interest on acquisition of controlling interest	(30.0)	(5.3)	(31.6)
Gain on sale of freehold property in New York	-	(71.4)	-
(Gains)/losses on sale of property, plant and equipment	(0.4)	0.7	(0.9)
Operating cash flow before movements in working capital and provisions	1,917.5	1,679.3	1,654.4
Decrease/(increase) in inventories and work in progress	36.7	(17.6)	32.7
Increase in receivables	(253.3)	(436.4)	(1.8)
Increase/(decrease) in payables - short-term	67.2	105.3	(618.5)
Increase in payables - long-term	28.3	4.1	19.2
Decrease in provisions	(12.3)	(43.6)	(52.5)
Cash generated by operations	1,784.1	1,291.1	1,033.5
Corporation and overseas tax paid	(273.3)	(257.0)	(247.9)
Interest and similar charges paid	(254.7)	(228.3)	(241.4)
Interest received	51.3	56.6	63.2
Investment income	10.1	1.2	0.6
Dividends from associates	56.7	44.7	57.2
Net cash inflow from operating activities	1,374.2	908.3	665.2

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Acquisitions and disposals:

	2013 £m	2012 £m	2011 £m
Initial cash consideration	(165.1)	(462.0)	(352.3)
Cash and cash equivalents acquired (net)	25.0	46.6	98.8
Earnout payments	(27.7)	(85.7)	(150.0)
Loan note redemptions	-	(1.0)	(0.8)
Purchase of other investments (including associates)	(45.6)	(111.4)	(68.1)
Proceeds on disposal of investments	12.0	47.0	2.6
Acquisitions and disposals	(201.4)	(566.5)	(469.8)
Cash consideration for non-controlling interests	(19.6)	(20.1)	(62.6)
Net cash outflow	(221.0)	(586.6)	(532.4)

Share repurchases and buy-backs:

	2013 £m	2012 £m	2011 £m
Purchase of own shares by ESOP Trusts	(179.4)	(78.8)	(106.5)
Share cancellations (excluding brokerage fees)	-	(55.1)	(45.9)
Shares purchased into treasury	(17.6)	(0.6)	(29.8)
Net cash outflow	(197.0)	(134.5)	(182.2)

Net increase in borrowings:

	2013 £m	2012 £m	2011 £m
Proceeds from issue of €750 million bonds	624.8	-	-
Proceeds from issue of \$500 million bonds	314.2	312.1	319.5
Proceeds from issue of \$300 million bonds	-	187.3	-
Repayment of €600 million bonds	(502.1)	-	-
Repayment of convertible bonds	(0.1)	-	-
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)	-
Net cash inflow	436.8	380.5	301.4

Cash and cash equivalents:

	2013 £m	2012 £m	2011 £m
Cash at bank and in hand	2,099.1	1,721.4	1,833.5
Short-term bank deposits	122.5	223.9	113.1
Overdrafts ¹	(338.4)	(586.0)	(518.4)
Cash and cash equivalents at end of year	1,883.2	1,359.3	1,428.2

Note

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

The Group considers that the carrying amount of cash and cash equivalents approximates their fair value.

12. Intangible assets

Goodwill

The movements in 2013 and 2012 were as follows:

	£m
Cost:	
1 January 2012	9,988.5
Additions ¹	360.8
Revision of earnout estimates	8.6
Exchange adjustments	(315.8)
31 December 2012	10,042.1
Additions ¹	209.0
Revision of earnout estimates	(5.7)
Exchange adjustments	(179.6)
31 December 2013	10,065.8

Accumulated impairment losses and write-downs:

1 January 2012	557.7
Impairment losses for the year	32.0
Exchange adjustments	(4.8)
31 December 2012	584.9
Impairment losses for the year	17.7
Exchange adjustments	(9.6)
31 December 2013	593.0

Net book value:

31 December 2013	9,472.8
31 December 2012	9,457.2
1 January 2012	9,430.8

Note

¹ Additions represent goodwill arising on the acquisition of subsidiary undertakings including the effect of any revisions to fair value adjustments that had been determined provisionally at the immediately preceding balance sheet date, as permitted by IFRS 3 Business Combinations. The effect of such revisions was not material in either year presented. Goodwill arising on the acquisition of associate undertakings is shown within interests in associates and joint ventures in note 14.

Cash-generating units with significant goodwill as at 31 December 2013 and 2012 are:

	2013 £m	2012 £m
GroupM	2,004.7	1,964.4
Kantar	1,800.9	1,764.0
Wunderman	1,063.7	1,096.9
Y&R Advertising	956.5	984.5
Burson-Marsteller	463.4	480.4
Other	3,183.6	3,167.0
Total goodwill	9,472.8	9,457.2

Other goodwill represents goodwill on a large number of cash-generating units, none of which is individually significant in comparison to the total carrying value of goodwill.

Other intangible assets

The movements in 2013 and 2012 were as follows:

	Brands with an indefinite useful life £m	Acquired intan- gibles £m	Other £m	Total £m
Cost:				
1 January 2012	1,036.4	1,463.6	253.8	2,753.8
Additions	-	-	39.8	39.8
Disposals	-	-	(19.0)	(19.0)
New acquisitions	-	185.2	1.3	186.5
Other movements ¹	-	12.9	0.3	13.2
Exchange adjustments	(43.3)	(34.1)	(11.9)	(89.3)
31 December 2012	993.1	1,627.6	264.3	2,885.0
Additions	-	-	43.8	43.8
Disposals	-	-	(18.9)	(18.9)
New acquisitions	-	45.5	0.4	45.9
Other movements ¹	-	2.2	0.6	2.8
Exchange adjustments	(35.2)	(8.9)	(6.0)	(50.1)
31 December 2013	957.9	1,666.4	284.2	2,908.5

Amortisation and impairment:

1 January 2012	-	722.2	171.7	893.9
Charge for the year	-	169.6	33.7	203.3
Disposals	-	-	(18.4)	(18.4)
Other movements	-	-	(2.8)	(2.8)
Exchange adjustments	-	(10.2)	(8.2)	(18.4)
31 December 2012	-	881.6	176.0	1,057.6
Charge for the year	-	176.9	32.7	209.6
Disposals	-	-	(17.7)	(17.7)
Other movements	-	-	1.4	1.4
Exchange adjustments	-	(5.7)	(4.5)	(10.2)
31 December 2013	-	1,052.8	187.9	1,240.7

Net book value:

31 December 2013	957.9	613.6	96.3	1,667.8
31 December 2012	993.1	746.0	88.3	1,827.4
1 January 2012	1,036.4	741.4	82.1	1,859.9

Note

¹ Other movements in acquired intangibles include revisions to fair value adjustments arising on the acquisition of subsidiary undertakings that had been determined provisionally at the immediately preceding balance sheet date, as permitted by IFRS 3 Business Combinations.

Brands with an indefinite life are carried at historical cost in accordance with the Group's accounting policy for intangible assets. The carrying values of the separately identifiable brands are not individually significant in comparison with the total carrying value of brands with an indefinite useful life.

Acquired intangible assets at net book value at 31 December 2013 include brand names of £386.8 million (2012: £408.8 million), customer-related intangibles of £206.5 million (2012: £287.7 million), and other assets (including proprietary tools) of £20.3 million (2012: £49.5 million).

The total amortisation and impairment of acquired intangible assets of £179.8 million (2012: £171.9 million) includes £2.9 million (2012: £2.3 million) in relation to associates.

In accordance with the Group's accounting policy, the carrying values of goodwill and intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The carrying values of brands with an indefinite useful life are assessed for impairment purposes by using the royalty and loyalty methods of valuation, both of which utilise the net present value of future cash flows associated with the brands.

The goodwill impairment review is undertaken annually on 30 September. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows, using a pre-tax discount rate of 9.5% (2012: 9.5%) and management forecasts for a projection period of up to five years, followed by an assumed annual long-term growth rate of 3.0% (2012: 3.0%) and no assumed improvement in operating margin. Management have made the judgement that this long-term growth rate does not exceed the long-term average growth rate for the industry.

The goodwill impairment charge of £23.3 million (2012: £32.0 million) relates to a number of under-performing businesses in the Group, of which £5.6 million (2012: £nil) is in relation to associates. In certain markets, the impact of local economic conditions and trading circumstances on these businesses was sufficiently severe to indicate impairment to the carrying value of goodwill.

Under IFRS, an impairment charge is required for both goodwill and other indefinite-lived assets when the carrying amount exceeds the 'recoverable amount', defined as the higher of fair value less costs to sell and value in use.

Our approach in determining the recoverable amount utilises a discounted cash flow methodology, which necessarily involves making numerous estimates and assumptions regarding revenue growth, operating margins, appropriate discount rates and working capital requirements. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material. In addition, judgements are applied in determining the level of cash-generating unit identified for impairment testing and the criteria used to determine which assets should be aggregated. A difference in testing levels could affect whether an impairment is recorded and the extent of impairment loss. Changes in our business activities or structure may also result in changes to the level of testing in future periods. Further, future events could cause the Group to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a material impact on the Group's financial condition and results of operations.

Historically our impairment losses have resulted from a specific event, condition or circumstance in one of our companies, such as the loss of a significant client. As a result, changes in the assumptions used in our impairment model have not had a significant effect on the impairment charges recognised and a reasonably possible change in assumptions would not lead to a significant impairment. The carrying value of goodwill and other intangible assets will continue to be reviewed at least annually for impairment and adjusted to the recoverable amount if required.

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13. Property, plant and equipment

The movements in 2013 and 2012 were as follows:

	Land £m	Free- hold build- ings £m	Lease- hold build- ings £m	Fixtures, fittings and equip- ment £m	Com- puter equip- ment £m	Total £m
Cost:						
1 January 2012	12.4	73.1	713.9	369.7	612.2	1,781.3
Additions	29.7	71.2	79.6	34.6	83.3	298.4
New acquisitions	-	-	2.3	1.8	4.4	8.5
Disposals	(4.0)	(26.3)	(79.8)	(54.0)	(81.8)	(245.9)
Exchange adjustments	(1.0)	(0.4)	(29.7)	(18.7)	(25.5)	(75.3)
31 December 2012	37.1	117.6	686.3	333.4	592.6	1,767.0
Additions	-	8.8	92.2	44.2	85.4	230.6
New acquisitions	-	-	0.6	4.2	2.6	7.4
Disposals	-	(1.6)	(27.9)	(35.8)	(57.8)	(123.1)
Exchange adjustments	-	(19.0)	(9.9)	(20.2)	(17.0)	(66.1)
31 December 2013	37.1	105.8	741.3	325.8	605.8	1,815.8
Depreciation:						
1 January 2012	-	29.5	343.1	225.6	454.8	1,053.0
Charge for the year	-	3.2	62.3	40.6	84.9	191.0
Disposals	-	(14.3)	(56.5)	(47.6)	(78.0)	(196.4)
Exchange adjustments	-	(0.6)	(14.3)	(13.2)	(20.8)	(48.9)
31 December 2012	-	17.8	334.6	205.4	440.9	998.7
Charge for the year	-	4.0	68.4	41.9	87.7	202.0
Disposals	-	(1.3)	(23.9)	(34.3)	(57.9)	(117.4)
Exchange adjustments	-	(0.7)	(6.2)	(21.3)	(12.6)	(40.8)
31 December 2013	-	19.8	372.9	191.7	458.1	1,042.5
Net book value:						
31 December 2013	37.1	86.0	368.4	134.1	147.7	773.3
31 December 2012	37.1	99.8	351.7	128.0	151.7	768.3
1 January 2012	12.4	43.6	370.8	144.1	157.4	728.3

At the end of the year, capital commitments contracted, but not provided for in respect of property, plant and equipment were £31.6 million (2012: £47.0 million).

14. Interests in associates, joint ventures and other investments

The movements in 2013 and 2012 were as follows:

	Net assets of associates and joint ventures £m	Goodwill and other intang- ibles of associates and joint ventures £m	Total associates and joint ventures £m	Other invest- ments £m
1 January 2012	392.2	409.1	801.3	190.8
Additions	32.1	-	32.1	24.8
Goodwill arising on acquisition of new associates	-	54.5	54.5	-
Share of results of associate undertakings (note 4)	69.4	-	69.4	-
Dividends and other movements	(49.3)	15.8	(33.5)	-
Exchange adjustments	(28.7)	(29.6)	(58.3)	(6.1)
Disposals	(9.6)	-	(9.6)	(14.4)
Reclassification from subsidiaries	35.2	2.9	38.1	-
Revaluation of other investments	-	-	-	(3.5)
Amortisation of other intangible assets	-	(2.3)	(2.3)	-
Write-downs	(0.7)	(3.8)	(4.5)	(15.1)
31 December 2012	440.6	446.6	887.2	176.5
Additions	11.5	-	11.5	28.5
Goodwill arising on acquisition of new associates	-	13.9	13.9	-
Share of results of associate undertakings (note 4)	68.1	-	68.1	-
Dividends and other movements	(73.1)	16.7	(56.4)	-
Exchange adjustments	(40.0)	(52.3)	(92.3)	(1.4)
Disposals	-	(7.6)	(7.6)	(5.0)
Reclassification to subsidiaries	(11.3)	(11.4)	(22.7)	-
Revaluation of other investments	-	-	-	72.0
Amortisation of other intangible assets	-	(2.9)	(2.9)	-
Goodwill impairment	-	(5.6)	(5.6)	-
Write-downs	(0.4)	-	(0.4)	-
31 December 2013	395.4	397.4	792.8	270.6

The investments included above as 'other investments' represent investments in equity securities that present the Group with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of the listed securities are based on quoted market prices. For unlisted securities, where 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 carrying values of the Group's associates and joint ventures are reviewed for impairment in accordance with the Group's accounting policies.

The Group's principal associates and joint ventures at 31 December 2013 included:

	% owned	Country of incorporation
Asatsu-DK Inc.	24.6	Japan
Barrows Design and Manufacturing (Pty) Limited	35.0	South Africa
CHI & Partners Limited	49.9	UK
Chime Communications Plc ¹	17.7	UK
CTR Market Research Co., Ltd	46.0	China
CVSC Sofres Media Co Limited	40.0	China
GIIR Inc.	29.9	Korea
Globant SA	21.5	Argentina
Grass Roots Group plc	44.8	UK
High Co SA	34.1	France
IBOPE Latinoamericana, SA	41.8	Brazil
Singleton, Ogilvy & Mather (Holdings) Pty Limited	33.3	Australia
STW Communications Group Limited	20.0	Australia
The Jupiter Drawing Room (Proprietary) Limited	49.0	South Africa
WVI Marketing Communications Group Limited	50.0	Russia

Note

¹ Although the Group holds less than 20% of Chime Communications Plc, it is considered to be an associate as the Group exercises significant influence by virtue of a position on the Board of Directors.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2013 was as follows: Asatsu-DK Inc: £148.3 million, Chime Communications Plc: £58.4 million, GIIR Inc: £22.0 million, High Co SA: £15.0 million, and STW Communications Group Limited: £63.6 million (2012: Asatsu-DK Inc: £150.7 million, Chime Communications Plc: £40.0 million, GIIR Inc: £18.3 million, High Co SA: £15.2 million, Scangroup Limited: £40.6 million, and STW Communications Group Limited: £53.2 million).

The carrying value (including goodwill and other intangibles) of these equity interests in the Group's consolidated balance sheet at 31 December 2013 was as follows: Asatsu-DK Inc: £155.3 million, Chime Communications Plc: £34.7 million, GIIR Inc: £28.2 million, High Co SA: £31.6 million, and STW Communications Group Limited: £66.5 million (2012: Asatsu-DK Inc: £197.0 million, Chime Communications Plc: £36.8 million, GIIR Inc: £26.7 million, High Co SA: £32.4 million, Scangroup Limited: £21.0 million, and STW Communications Group Limited: £67.8 million).

Where the market value of the Group's listed associates is less than the carrying value, an impairment review is performed utilising the discounted cash flow methodology discussed in note 12.

The Group's investments in its principal associate undertakings are represented by ordinary shares.

Summarised financial information

The following tables present a summary of the aggregate financial performance and net asset position of the Group's associate undertakings and joint ventures. These have been estimated and converted, where appropriate, to an IFRS presentation based on information provided by the relevant companies at 31 December 2013.

	2013 £m	2012 £m	2011 £m
Income statement			
Revenue	2,366.7	2,268.0	2,127.2
Operating profit	274.8	262.1	293.7
Profit before taxation	261.5	262.8	316.5
Profit for the year	188.8	176.5	190.5
Balance sheet			
Assets	5,027.4	4,956.5	
Liabilities	(2,411.9)	(2,424.0)	
Net assets	2,615.5	2,532.5	

The application of equity accounting is ordinarily discontinued when the investment is reduced to zero and additional losses are not provided for unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

At the end of the year, capital commitments contracted, but not provided for in respect of interests in associates and other investments were £27.3 million (2012: £18.8 million).

15. Deferred tax

The Group's deferred tax assets and liabilities are measured at the end of each period in accordance with IAS 12. The recognition of deferred tax assets is determined by reference to the Group's estimate of recoverability, using models where appropriate to forecast future taxable profits.

Deferred tax assets have only been recognised for territories where the Group considers that it is probable there would be sufficient taxable profits for the future deductions to be utilised.

Based on available evidence, both positive and negative, we determine whether it is probable that all or a portion of the deferred tax assets will be realised. The main factors that we consider include:

- the future earnings potential determined through the use of internal forecasts;
- the cumulative losses in recent years;
- the various jurisdictions in which the potential deferred tax assets arise;
- the history of losses carried forward and other tax assets expiring;
- the timing of future reversal of taxable temporary differences;
- the expiry period associated with the deferred tax assets; and
- the nature of the income that can be used to realise the deferred tax asset.

If it is probable that some portion of these assets will not be realised, then no asset is recognised in relation to that portion.

If market conditions improve and future results of operations exceed our current expectations, our existing recognised deferred tax assets may be adjusted, resulting in future tax benefits. Alternatively, if market conditions deteriorate further or future results of operations are less than expected, future assessments may result in a determination that some or all of the deferred tax assets are not realisable. As a result, all or a portion of the deferred tax assets may need to be reversed.

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Certain deferred tax assets and liabilities have been offset as they relate to the same tax group. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Gross £m	Offset £m	As reported £m
2013			
Deferred tax assets	224.3	(104.9)	119.4
Deferred tax liabilities	(755.6)	104.9	(650.7)
	(531.3)	-	(531.3)
2012			
Deferred tax assets	221.2	(130.0)	91.2
Deferred tax liabilities	(810.3)	130.0	(680.3)
	(589.1)	-	(589.1)

The following are the major gross deferred tax assets recognised by the Group and movements thereon in 2013 and 2012:

	Tax losses £m	Retirement benefit obligations £m	Property, plant & equipment £m	Share- based pay- ments £m	Other temporary differences £m	Total £m
1 January 2012	31.6	13.5	2.7	34.7	68.9	151.4
Credit/(charge) to income	5.7	3.0	41.2	9.9	(0.2)	59.6
Credit to other comprehensive income	-	7.7	-	-	-	7.7
Credit to equity	-	-	-	13.3	-	13.3
Transfer to corporation tax	-	-	-	-	3.9	3.9
Exchange adjustments	(1.7)	(0.5)	(0.2)	(2.0)	(10.3)	(14.7)
31 December 2012	35.6	23.7	43.7	55.9	62.3	221.2
(Charge)/credit to income	(7.3)	-	(12.3)	3.0	(2.2)	(18.8)
Charge to other comprehensive income	-	(1.2)	-	-	-	(1.2)
Credit to equity	-	-	-	30.2	-	30.2
Exchange adjustments	(3.1)	(3.5)	(0.1)	(2.8)	2.4	(7.1)
31 December 2013	25.2	19.0	31.3	86.3	62.5	224.3

Other temporary differences comprise a number of items, none of which is individually significant to the Group's consolidated balance sheet. At 31 December 2013 the balance related to temporary differences in relation to accounting provisions, tax credits, and tax deductible goodwill.

In addition the Group has recognised the following gross deferred tax liabilities and movements thereon in 2013 and 2012:

	Brands and other intangibles £m	Associate earnings £m	Goodwill £m	Property, plant & equipment £m	Other temporary differences £m	Total £m
1 January 2012	662.5	22.9	110.5	0.1	10.8	806.8
Acquisition of subsidiaries	59.4	-	-	-	1.9	61.3
(Credit)/ charge to income	(71.8)	1.5	21.1	30.2	(2.2)	(21.2)
Exchange adjustments	(25.4)	(3.4)	(5.9)	-	(1.9)	(36.6)
31 December 2012	624.7	21.0	125.7	30.3	8.6	810.3
Acquisition of subsidiaries	13.5	-	-	-	-	13.5
(Credit)/ charge to income	(58.9)	1.8	13.5	(0.2)	(2.3)	(46.1)
Credit to equity	-	-	-	-	(1.9)	(1.9)
Exchange adjustments	(14.7)	(1.3)	(3.7)	(0.5)	-	(20.2)
31 December 2013	564.6	21.5	135.5	29.6	4.4	755.6

At the balance sheet date, the Group has gross tax losses and other temporary differences of £5,391.0 million (2012: £4,730.9 million) available for offset against future profits. Deferred tax assets have been recognised in respect of the tax benefit of £710.8 million (2012: £687.9 million) of such tax losses and other temporary differences. No deferred tax asset has been recognised in respect of the remaining £4,680.2 million (2012: £4,043.0 million) of losses and other temporary differences as the Group considers that there will not be enough taxable profits in the entities concerned such that any additional asset could be considered recoverable. Included in the total unrecognised temporary differences are losses of £280.0 million that will expire by 2023, £27.1 million that will expire by 2027, £60.1 million that will expire by 2029, £10.6 million that will expire by 2032 and £3,086.9 million of losses that may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was £1,938.3 million. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future.

16. Inventory and work in progress

The following are included in the net book value of inventory and work in progress:

	2013 £m	2012 £m
Work in progress	288.9	343.3
Inventory	15.6	4.9
	304.5	348.2

17. Trade and other receivables

The following are included in trade and other receivables:

Amounts falling due within one year:

	2013 £m	2012 £m
Trade receivables (net of bad debt provision)	5,986.5	6,204.2
VAT and sales taxes recoverable	82.0	75.6
Prepayments and accrued income	2,533.3	2,232.2
Fair value derivatives	57.9	28.5
Other debtors	428.4	466.5
	9,088.1	9,007.0

The ageing of trade receivables and other financial assets is as follows:

	Carrying amount at 31 December 2013 £m	Neither past due nor impaired £m	0-30 days £m	31-90 days £m	91-180 days £m	181 days-1 year £m	Greater than 1 year £m
2013							
Trade receivables	5,986.5	3,942.6	1,337.9	570.3	114.1	20.7	0.9
Other financial assets	416.0	282.2	68.3	18.1	12.5	12.2	22.7
	6,402.5	4,224.8	1,406.2	588.4	126.6	32.9	23.6

	Carrying amount at 31 December 2012 £m	Neither past due nor impaired £m	0-30 days £m	31-90 days £m	91-180 days £m	181 days-1 year £m	Greater than 1 year £m
2012							
Trade receivables	6,204.2	3,942.5	1,447.2	659.2	140.1	9.5	5.7
Other financial assets	467.4	311.3	77.0	35.7	7.4	10.1	25.9
	6,671.6	4,253.8	1,524.2	694.9	147.5	19.6	31.6

Other financial assets are included in other debtors.

Past due amounts are not impaired where collection is considered likely.

Amounts falling due after more than one year:

	2013 £m	2012 £m
Prepayments and accrued income	24.5	29.5
Other debtors	78.7	73.9
Fair value of derivatives	55.3	141.7
	158.5	245.1

Movements on bad debt provisions were as follows:

	2013 £m	2012 £m
Balance at beginning of year	105.3	125.7
New acquisitions	2.1	0.7
Charged to operating costs	26.3	18.1
Exchange adjustments	(1.7)	(4.1)
Utilisations and other movements	(39.2)	(35.1)
Balance at end of year	92.8	105.3

The allowance for bad and doubtful debts is equivalent to 1.5% (2012: 1.7%) of gross trade accounts receivable.

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

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

The following are included in trade and other payables falling due within one year:

	2013 £m	2012 £m
Trade payables	7,150.2	7,227.5
Other taxation and social security	415.3	433.6
Payments due to vendors (earnout agreements)	49.7	33.4
Liabilities in respect of put option agreements with vendors	53.5	64.3
Deferred income	917.8	880.2
Fair value of derivatives	41.8	31.6
Share purchases – close period commitments	–	18.2
Other creditors and accruals	2,082.4	2,219.0
	10,710.7	10,907.8

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

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

The following are included in trade and other payables falling due after more than one year:

	2013 £m	2012 £m
Payments due to vendors (earnout agreements)	143.8	160.6
Liabilities in respect of put option agreements with vendors	85.6	80.0
Fair value of derivatives	19.9	79.7
Other creditors and accruals	208.3	191.7
	457.6	512.0

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

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

	2013 £m	2012 £m
Within one year	49.7	33.4
Between one and two years	26.1	35.7
Between two and three years	44.1	28.7
Between three and four years	54.0	30.4
Between four and five years	12.9	63.8
Over five years	6.7	2.0
	193.5	194.0

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	2013 £m	2012 £m
At the beginning of the year	194.0	234.1
Earnouts paid (note 11)	(27.7)	(85.7)
New acquisitions	51.9	61.5
Revision of estimates taken to goodwill (note 12)	(5.7)	8.6
Revaluation of payments due to vendors (note 6)	(15.8)	(15.2)
Exchange adjustments	(3.2)	(9.3)
At the end of the year	193.5	194.0

As of 31 December 2013, the potential undiscounted amount of future payments that could be required under the earnout agreements for acquisitions completed in the current year and for all earnout agreements range from £nil to £289 million (2012: £nil to £322 million) and £nil to £1,042 million (2012: £nil to £819 million), respectively. The increase in the maximum potential undiscounted amount of future payments for all earnout agreements is due to earnout arrangements related to new acquisitions partially offset by earnout arrangements that have completed and payments made on active arrangements during the year.

20. Bank overdrafts, bonds and bank loans

Amounts falling due within one year:

	2013 £m	2012 £m
Bank overdrafts	338.4	586.0
Corporate bonds and bank loans	603.0	499.9
	941.4	1,085.9

The Group considers that the carrying amount of bank overdrafts approximates their fair value.

Amounts falling due after more than 1 year:

	2013 £m	2012 £m
Corporate bonds and bank loans	3,520.6	3,680.6

The Group estimates that the fair value of convertible and corporate bonds is £4,344.9 million at 31 December 2013 (2012: £4,759.7 million). The Group considers that the carrying amount of bank loans approximates their fair value. The fair values of the corporate bonds are based on quoted market prices.

The corporate bonds, convertible bonds, bank loans and overdrafts included within liabilities fall due for repayment as follows:

	2013 £m	2012 £m
Within one year	941.4	1,085.9
Between one and two years	424.2	1,071.2
Between two and three years	618.5	408.4
Between three and four years	424.8	607.8
Between four and five years	-	433.0
Over five years	2,053.1	1,160.2
	4,462.0	4,766.5

21. Provisions for liabilities and charges

The movements in 2013 and 2012 were as follows:

	Property £m	Other £m	Total £m
1 January 2012	48.3	105.7	154.0
Charged to the income statement	8.9	14.8	23.7
Acquisitions	0.7	11.4	12.1
Utilised	(8.0)	(18.8)	(26.8)
Released to the income statement	(6.8)	(5.4)	(12.2)
Transfers	(0.7)	(7.7)	(8.4)
Exchange adjustments	(1.1)	(4.7)	(5.8)
31 December 2012	41.3	95.3	136.6
Charged to the income statement	11.5	13.8	25.3
Acquisitions ¹	2.7	14.7	17.4
Utilised	(7.6)	(11.3)	(18.9)
Released to the income statement	(9.1)	(4.6)	(13.7)
Transfers	(0.7)	6.4	5.7
Exchange adjustments	(0.8)	(3.9)	(4.7)
31 December 2013	37.3	110.4	147.7

Note

¹ Acquisitions include £3.5 million of provisions arising from revisions to fair value adjustments related to the acquisition of subsidiary undertakings that had been determined provisionally at the immediately preceding balance sheet date, as permitted by IFRS 3 Business Combinations.

Provisions comprise liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount. These include provisions for vacant space, sub-let losses and other property-related liabilities. Also included are other provisions, such as certain long-term employee benefits and legal claims, where the likelihood of settlement is considered probable.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims will have a material adverse effect on the Group's financial position or on the results of its operations.

22. Share-based payments

Charges for share-based incentive plans were as follows:

	2013 £m	2012 £m	2011 £m
Share-based payments	105.4	92.8	78.8

Share-based payments comprise charges for stock options and restricted stock awards to employees of the Group.

As of 31 December 2013, there was £167.6 million (2012: £167.0 million) of total unrecognised compensation cost related to the Group's restricted stock plans. That cost is expected to be recognised over a period of one to two years.

Further information on stock options is provided in note 26.

Restricted stock plans

The Group operates a number of equity-settled share incentive schemes, in most cases satisfied by the delivery of stock from one of the Group's ESOP Trusts. The most significant current schemes are as follows:

Renewed Leadership Equity Acquisition Plan (Renewed LEAP) and Leadership Equity Acquisition Plan III (LEAP III)

Under Renewed LEAP and LEAP III, the most senior executives of the Group, including certain executive directors, commit WPP shares ('investment shares') in order to have the opportunity to earn additional WPP shares ('matching shares'). The number of matching shares which a participant can receive at the end of the fixed performance period of five years is dependent on the performance (based on the Total

Share Owner Return (TSR)) of the Company over that period against a comparator group of other listed communications services companies. The maximum possible number of matching shares for each of the 2012, 2011, 2010 and 2009 grants is five shares for each investment share. The 2009 Renewed LEAP plan vested in February 2014 at a match of 4.37 shares for each investment share. The last LEAP III award was granted in 2012 and no further awards will be made following the introduction of the EPSP.

Executive Performance Share Plan (EPSP)

The first grant of restricted stock under the EPSP was made in 2013. This scheme is intended to reward and incentivise the most senior executives of the Group and has effectively replaced LEAP III. The performance period is five complete financial years, commencing with the financial year in which the award is granted. Grant date will usually be in the first half of the first performance year, with vest date in the March following the end of the five-year performance period. Vesting is conditional on continued employment throughout the vesting period.

There are three performance criteria, each constituting one-third of the vesting value, and each measured over this five-year period:

- (i) TSR against a comparator group of companies. Threshold performance (equating to ranking in the 50th percentile of the comparator group) will result in 20% vesting of the part of the award dependent on TSR. The maximum vest of 100% will arise if performance ranks in the 90th percentile, with a sliding scale of vesting for performance between threshold and maximum.
- (ii) Headline diluted earnings per share. Threshold performance (7% compound annual growth) will again result in a 20% vest. Maximum performance of 14% compound annual growth will give rise to a 100% vest, with a sliding vesting scale for performance between threshold and maximum.
- (iii) Return on equity (ROE). Average annual ROE defined as headline diluted EPS divided by the balance sheet value per share of share owners' equity. Threshold of 10% average annual ROE, maximum of 14%, with a sliding scale for performance in between. Threshold again gives rise to a 20% vest, with 100% for maximum.

Performance Share Awards (PSA)

Grants of restricted stock under PSA are dependent upon annual performance targets, typically based on one or more of: operating profit, profit before taxation and operating margin. Grants are made in the year following the year of performance measurement, and vest two years after grant date provided the individual concerned is continually employed by the Group throughout this time.

Leaders, Partners and High Potential Group

This scheme provides annual grants of restricted stock to well over 1,000 key executives of the Group. Vesting is conditional on continued employment over the three-year vesting period.

Valuation methodology

For all of these schemes, the valuation methodology is based upon fair value on grant date, which is determined by the market price on that date or the application of a Black-Scholes model, depending upon the characteristics of the scheme concerned. The assumptions underlying the Black-Scholes model are detailed in note 26, including details of assumed dividend yields. Market price on any given day is obtained from external, publicly available sources.

Market/non-market conditions

Most share-based plans are subject to non-market performance conditions, such as margin or growth targets, as well as continued employment. The Renewed LEAP, LEAP III and EPSP schemes are subject to a number of performance conditions, including TSR, a market-based condition.

For schemes without market-based performance conditions, the valuation methodology above is applied and, at each year end, the relevant accrual for each grant is revised, if appropriate, to take account of any changes in estimate of the likely number of shares expected to vest.

For schemes with market-based performance conditions, the probability of satisfying these conditions is assessed at grant date through a statistical model (such as the Monte Carlo Model) and applied to the fair value. This initial valuation remains fixed throughout the life of the relevant plan, irrespective of the actual outcome in terms of performance. Where a lapse occurs due to cessation of employment, the cumulative charge taken to date is reversed.

Movement on ordinary shares granted for significant restricted stock plans:

	Non-vested 1 January 2013 number m	Granted number m	Lapsed number m	Vested number m	Non-vested 31 December 2013 number m
Renewed LEAP/ LEAP III ¹	4.6	3.5	–	(4.3)	3.8
Executive Performance Share Plan (EPSP)	–	2.5	–	–	2.5
Performance Share Awards (PSA)	7.0	2.0	(0.3)	(3.5)	5.2
Leaders, Partners and High Potential Group	9.8	2.2	(0.7)	(3.0)	8.3

Weighted average fair value (pence per share):

Renewed LEAP/ LEAP III ¹	683p	375p	725p	375p	749p
Executive Performance Share Plan (EPSP)	–	1,122p	–	–	1,122p
Performance Share Awards (PSA)	802p	970p	878p	731p	911p
Leaders, Partners and High Potential Group	740p	1,223p	765p	673p	891p

Note

¹ The number of shares granted represents the matched shares awarded on vest date for the 2008 Renewed LEAP plan which vested in March 2013. The actual number of shares that vest for each Renewed LEAP/LEAP III plan is dependent on the extent to which the relevant performance criteria are satisfied.

The total fair value of shares vested for all the Group's restricted stock plans during the year ended 31 December 2013 was £87.1 million (2012: £47.5 million, 2011: £76.5 million).

23. Provision for post-employment benefits

Companies within the Group operate a large number of pension plans, the forms and benefits of which vary with conditions and practices in the countries concerned. The Group's pension costs are analysed as follows:

	2013 £m	2012 £m	2011 £m
Defined contribution plans	124.4	124.9	114.7
Defined benefit plans charge to operating profit	26.9	23.8	20.7
Pension costs (note 5)	151.3	148.7	135.4
Net interest expense on pension plans ¹ (note 6)	11.4	11.3	11.2
	162.7	160.0	146.6

Note

¹ Comparative figures have been restated to reflect the requirements of IAS 19 (amended): Employee Benefits.

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Defined benefit plans

The pension costs are assessed in accordance with the advice of local independent qualified actuaries. The latest full actuarial valuations for the various pension plans were carried out at various dates in the last three years. These valuations have been updated by the local actuaries to 31 December 2013.

The Group's policy is to close existing defined benefit plans to new members. This has been implemented across a significant number of the pension plans.

Contributions to funded plans are determined in line with local conditions and practices. Contributions in respect of unfunded plans are paid as they fall due. The total contributions (for funded plans) and benefit payments (for unfunded plans) paid for 2013 amounted to £47.8 million (2012: £56.5 million, 2011: £66.8 million). Employer contributions and benefit payments in 2014 are expected to be approximately £80 million.

(a) Assumptions

There are a number of areas in pension accounting that involve judgements made by management based on advice of qualified advisors. These include establishing the discount rates, rates of increase in salaries and pensions in payment, inflation, and mortality assumptions. The main weighted average assumptions used for the actuarial valuations at 31 December are shown in the following table:

	2013	2012	2011	2010
	% pa	% pa	% pa	% pa
UK				
Discount rate ¹	4.5	4.2	4.7	5.4
Rate of increase in salaries	3.6	2.9	3.0	3.4
Rate of increase in pensions in payment	4.2	3.9	4.0	4.0
Inflation	2.9	2.4	2.5	3.2
North America				
Discount rate ¹	4.5	3.5	4.4	5.1
Rate of increase in salaries	3.0	3.0	3.0	3.0
Inflation	2.5	2.5	2.5	2.5
Western Continental Europe				
Discount rate ¹	3.7	3.6	4.8	5.3
Rate of increase in salaries	2.4	2.4	2.7	2.7
Rate of increase in pensions in payment	2.0	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe				
Discount rate ¹	4.4	4.1	4.8	4.0
Rate of increase in salaries	5.9	6.1	5.7	4.4
Inflation	4.5	4.7	4.8	5.1

Note

¹ Discount rates are based on high-quality corporate bond yields. In countries where there is no deep market in corporate bonds, the discount rate assumption has been set with regard to the yield on long-term government bonds.

For the Group's pension plans, the plans' assets are invested with the objective of being able to meet current and future benefit payment needs, while controlling balance sheet volatility and future contributions. Pension plan assets are invested with a number of investment managers, and assets are diversified among equities, bonds, insured annuities, property and cash or other liquid investments. The primary use of bonds as an investment class is to match the anticipated cash flows from the plans to pay pensions. The Group is invested in high-quality corporate and government bonds which share similar risk characteristics and are of equivalent currency and term to the plan liabilities. Various insurance policies have also been bought historically to provide a more exact match for the cash flows, including a match for the actual mortality of specific plan members. These insurance policies effectively provide protection against both investment fluctuations and longevity risks. The strategic target allocation varies among the individual plans.

Management considers the types of investment classes in which the pension plan assets are invested. The types of investment classes are determined by economic and market conditions and in consideration of specific asset class risk.

Management periodically commissions detailed asset and liability studies performed by third-party professional investment advisors and actuaries that generate probability-adjusted expected future returns on those assets. These studies also project the estimated future pension payments and evaluate the efficiency of the allocation of the pension plan assets into various investment categories.

At 31 December 2013, the life expectancies underlying the value of the accrued liabilities for the main defined benefit pension plans operated by the Group were as follows:

Years life expectancy after age 65	All plans	North America	UK	Western Continental Europe	Other ¹
- current pensioners (at age 65)					
- male	21.9	20.5	24.1	20.6	19.3
- current pensioners (at age 65)					
- female	23.9	22.7	25.4	23.6	24.7
- future pensioners (current age 45)					
- male	24.1	22.6	26.2	23.0	19.3
- future pensioners (current age 45)					
- female	25.9	24.6	27.6	25.5	24.7

Note

¹ Includes Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe.

The life expectancies after age 65 at 31 December 2012 were 21.9 years and 23.9 years for male and female current pensioners (at age 65) respectively, and 24.1 years and 26.0 years for male and female future pensioners (current age 45), respectively.

In the determination of mortality assumptions, management uses the most up-to-date mortality tables available in each country.

The following table provides information on the weighted average duration of the defined benefit pension obligations and the distribution of the timing of benefit payments for the next 10 years. The duration corresponds to the weighted average length of the underlying cash flows.

	All plans	North America	UK	Western Continental Europe	Other ¹
Weighted average duration of the defined benefit obligation (years)	12.4	10.4	13.4	15.9	5.6
Expected benefit payments over the next 10 years					
Benefits expected to be paid within 12 months	50.9	25.8	16.1	7.2	1.8
Benefits expected to be paid in 2015	52.5	27.5	16.0	7.4	1.6
Benefits expected to be paid in 2016	59.3	26.7	18.4	7.4	6.8
Benefits expected to be paid in 2017	52.9	25.6	17.7	7.7	1.9
Benefits expected to be paid in 2018	53.4	24.9	18.3	8.1	2.1
Benefits expected to be paid in the next five years	292.1	135.1	100.9	43.8	12.3

Note

¹ Includes Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe.

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of plan assets.

The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant so that interdependencies between the assumptions are excluded. The methodology applied is consistent with that used to determine the recognised defined benefit obligation. The sensitivity analysis for inflation is not shown as it is an underlying assumption to build the pension and salary increase assumptions. Changing the inflation assumption on its own without changing the salary or pension assumptions will not result in a significant change in pension liabilities.

	Increase/(decrease) in benefit obligation 2013 £m
Sensitivity analysis of significant actuarial assumptions	
Discount rate	
Increase by 25 basis points	
UK	(10.8)
North America	(9.9)
Western Continental Europe	(7.1)
Other ¹	(0.5)
Decrease by 25 basis points	
UK	11.5
North America	10.1
Western Continental Europe	7.5
Other ¹	0.4
Rate of increase in salaries	
Increase by 25 basis points	
UK	0.2
North America	-
Western Continental Europe	1.1
Other ¹	0.4
Decrease by 25 basis points	
UK	(0.1)
North America	(0.1)
Western Continental Europe	(1.1)
Other ¹	(0.5)
Rate of increase in pensions in payment	
Increase by 25 basis points	
UK	2.2
Western Continental Europe	4.9
Decrease by 25 basis points	
UK	(2.1)
Western Continental Europe	(4.7)
Life expectancy	
Increase in longevity by one additional year	
UK	11.5
North America	4.5
Western Continental Europe	3.8
Other ¹	-

Note

¹ Includes Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe.

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(b) Assets and liabilities

At 31 December, the fair value of the assets in the pension plans, and the assessed present value of the liabilities in the pension plans are shown in the following table:

	2013		2012		2011	
	£m	%	£m	%	£m	%
Equities	147.7	20.3	145.0	20.4	168.7	25.8
Bonds	405.8	55.9	282.3	39.8	271.4	41.5
Insured annuities	68.7	9.5	74.5	10.5	67.6	10.4
Property	1.0	0.1	0.8	0.1	9.4	1.4
Cash ¹	37.0	5.1	150.9	21.3	84.9	13.0
Other ¹	66.0	9.1	56.3	7.9	51.7	7.9
Total fair value of assets	726.2	100.0	709.8	100.0	653.7	100.0
Present value of liabilities	(972.8)		(1,044.1)		(934.5)	
Deficit in the plans	(246.6)		(334.3)		(280.8)	
Irrecoverable surplus	(0.9)		(1.0)		(1.1)	
Unrecognised past service cost ²	-		(0.3)		(0.4)	
Net liability ³	(247.5)		(335.6)		(282.3)	
Plans in surplus	17.7		1.5		5.6	
Plans in deficit	(265.2)		(337.1)		(287.9)	

Notes

¹ In the 2012 and 2011 financial statements these were presented in 'cash and other'.

² In accordance with IAS 19 (amended) past service costs are recognized immediately in the income statement when the related plan amendment occurs. Prior years have not been restated as the impact to the financial statements would be immaterial.

³ The related deferred tax asset is discussed in note 15.

All plan assets have quoted prices in active markets with the exception of insured annuities and other assets.

The total fair value of assets, present value of pension plan liabilities and deficit in the plans were £631.3 million, £871.2 million and £239.9 million in 2010 and £588.1 million, £836.1 million and £248.0 million in 2009, respectively.

Surplus/(deficit) in plans by region	2013 £m	2012 £m	2011 £m
UK	11.3	(9.4)	(1.6)
North America	(136.7)	(193.8)	(172.5)
Western Continental Europe	(96.0)	(100.0)	(84.5)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(25.2)	(31.1)	(22.2)
Deficit in the plans	(246.6)	(334.3)	(280.8)

Some of the Group's defined benefit plans are unfunded (or largely unfunded) by common custom and practice in certain jurisdictions. In the case of these unfunded plans, the benefit payments are made as and when they fall due. Pre-funding of these plans would not be typical business practice.

The following table shows the split of the deficit at 31 December 2013, 2012 and 2011 between funded and unfunded pension plans.

	2013 Surplus/ (deficit) £m	2013 Present value of liabilities £m	2012 Deficit £m	2012 Present value of liabilities £m	2011 Deficit £m	2011 Present value of liabilities £m
Funded plans by region						
UK	11.3	(346.4)	(9.4)	(366.6)	(1.6)	(327.8)
North America	(68.8)	(334.2)	(115.6)	(375.0)	(93.1)	(340.2)
Western Continental Europe	(41.6)	(135.4)	(45.5)	(129.1)	(36.4)	(108.0)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(5.0)	(14.3)	(5.1)	(14.7)	(2.3)	(11.1)
Deficit/liabilities in the funded plans	(104.1)	(830.3)	(175.6)	(885.4)	(133.4)	(787.1)

Unfunded plans by region

UK	-	-	-	-	-	-
North America	(67.9)	(67.9)	(78.2)	(78.2)	(79.4)	(79.4)
Western Continental Europe	(54.4)	(54.4)	(54.5)	(54.5)	(48.1)	(48.1)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(20.2)	(20.2)	(26.0)	(26.0)	(19.9)	(19.9)
Deficit/liabilities in the unfunded plans	(142.5)	(142.5)	(158.7)	(158.7)	(147.4)	(147.4)

Deficit/liabilities in the plans	(246.6)	(972.8)	(334.3)	(1,044.1)	(280.8)	(934.5)
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In accordance with IAS 19 (amended), plans that are wholly or partially funded are considered funded plans.

(c) Pension expense

The following table shows the breakdown of the pension expense between amounts charged to operating profit, amounts charged to finance costs and amounts recognised in the consolidated statement of comprehensive income (OCI):

	2013 £m	2012 £m	2011 £m
Service cost ¹	24.8	23.8	20.7
Administrative expenses ²	2.1	-	-
Charge to operating profit	26.9	23.8	20.7
Net interest expense on pension plans ³	11.4	11.3	11.2
Charge to profit before taxation for defined benefit plans	38.3	35.1	31.9
Return on plan assets (excluding interest income) ^{2,4}	3.2	40.1	(5.7)
Experience gain/(loss) arising on the plan liabilities	0.4	(1.6)	(3.9)
Changes in demographic assumptions underlying the present value of the plan liabilities	13.5	(26.0)	-
Changes in financial assumptions underlying the present value of the plan liabilities	58.9	(96.5)	(62.2)
Change in irrecoverable surplus	0.2	0.1	(0.2)
Actuarial gain/(loss) recognised in OCI	76.2	(83.9)	(72.0)

Notes

¹ Includes current service cost, past service costs related to plan amendments and (gain)/loss on settlements and curtailments. In the 2012 and 2011 financial statements these were presented as separate line items.

² In accordance with IAS 19 (amended) administrative expenses are included in operating expenses. Administrative expenses of £2.3 million in 2012 and £2.1 million in 2011 were included as a reduction in expected return on plan assets. Prior years have not been restated as the impact to the financial statements would be immaterial.

³ Interest cost on pension plan liabilities and expected return on plan assets reported in previous years have been replaced with a net interest amount. Presentation of prior year comparative figures has been revised to reflect these requirements.

⁴ Gain/(loss) on pension plan assets relative to expected return for years prior to 2013.

As at 31 December 2013 the cumulative amount of net actuarial losses recognised in equity since 1 January 2001 was £260.4 million (2012: £336.6 million, 2011: £252.7 million). Of this amount, a net loss of £159.3 million was recognised since the 1 January 2004 adoption of IAS 19.

(d) Movement in plan liabilities

The following table shows an analysis of the movement in the pension plan liabilities for each accounting period:

	2013 £m	2012 £m	2011 £m
Plan liabilities at beginning of year	1,044.1	934.5	871.2
Service cost ¹	24.8	23.8	20.7
Interest cost	39.7	41.3	43.8
Actuarial (gain)/loss			
Effect of changes in demographic assumptions	(13.5)	26.0	-
Effect of changes in financial assumptions	(58.9)	96.5	62.2
Effect of experience adjustments	(0.4)	1.6	3.9
Benefits paid	(54.5)	(56.9)	(59.5)
Gain due to exchange rate movements	(5.0)	(25.3)	(2.0)
Settlement payments	(2.9)	(1.7)	(13.7)
Other ^{1,2}	(0.6)	4.3	7.9
Plan liabilities at end of year	972.8	1,044.1	934.5

Notes

¹ Includes current service cost, past service costs related to plan amendments and (gain)/loss on settlements and curtailments. In the 2012 and 2011 financial statements the past service costs related to plan amendments and (gain)/loss on settlements and curtailments were presented in 'other'.

² Other includes disposals, acquisitions, plan participants' contributions and reclassifications. The reclassifications represent certain of the Group's defined benefit plans which are included in this note for the first time in the periods presented.

(e) Movement in plan assets

The following table shows an analysis of the movement in the pension plan assets for each accounting period:

	2013 £m	2012 £m	2011 £m
Fair value of plan assets at beginning of year	709.8	653.7	631.3
Interest income on plan assets ¹	28.3	30.0	32.6
Return on plan assets (excluding interest income) ^{2,3}	3.2	40.1	(5.7)
Employer contributions	47.8	56.5	66.8
Benefits paid	(54.5)	(56.9)	(59.5)
Loss due to exchange rate movements	(4.8)	(13.9)	(1.3)
Settlement payments	(2.9)	(1.9)	(13.5)
Administrative expenses ³	(2.1)	-	-
Other ⁴	1.4	2.2	3.0
Fair value of plan assets at end of year	726.2	709.8	653.7
Actual return on plan assets	31.5	70.1	26.9

Notes

¹ Expected return for years prior to 2013.

² Gain/(loss) on pension plan assets relative to expected return for years prior to 2013.

³ In accordance with IAS 19 (amended) administrative expenses are included in operating expenses. Administrative expenses of £2.3 million in 2012 and £2.1 million in 2011 were included as a reduction in expected return on plan assets. Prior years have not been restated as the impact to the financial statements would be immaterial.

⁴ Other includes disposals, acquisitions, plan participants' contributions and reclassifications. The reclassifications represent certain of the Group's defined benefit plans which are included in this note for the first time in the periods presented.

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24. Risk management policies

Foreign currency risk

The Group's results in pounds sterling are subject to fluctuation as a result of exchange rate movements. The Group does not hedge this translation exposure to its earnings but does hedge the currency element of its net assets using foreign currency borrowings, cross-currency swaps and forward foreign exchange contracts.

The Group effects these currency net asset hedges by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars, pounds sterling and euros. Borrowings in these currencies represented 100.0% of the Group's gross indebtedness at 31 December 2013 (at \$3,993 million, £300 million and €1,730 million) and 98.7% of the Group's average gross debt during the course of 2013 (at \$3,587 million, £502 million and €1,622 million).

The Group's operations conduct the majority of their activities in their own local currency and consequently the Group has no significant transactional foreign exchange exposures. Any significant cross-border trading exposures are hedged by the use of forward foreign-exchange contracts. No speculative foreign exchange trading is undertaken.

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and interest-bearing liabilities. The Group has a policy of actively managing its interest rate risk exposure while recognising that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

Including the effect of interest rate and cross-currency swaps, 90.3% of the year-end US dollar debt is at fixed rates averaging 5.54% for an average period of 119 months; 33.3% of the sterling debt is at a fixed rate of 7.5% for an average period of 62 months; and 92.5% of the euro debt is at fixed rates averaging 4.86% for an average period of 70 months.

Other than fixed rate debt, the Group's other fixed rates are achieved principally through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2013 no forward rate agreements or interest rate caps were in place. These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowings and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis.

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 2013, the Group has access to £5.3 billion of committed bank facilities with maturity dates spread over the years 2013 to 2042 as illustrated below:

	£m	2014 £m	2015 £m	2016 £m	2017 £m	2018+ £m
US bond \$500m (5.625% '43)	301.8					301.8
US bond \$300m (5.125% '42)	181.1					181.1
Eurobonds €750m (3.0% '23)	624.3					624.3
US bond \$500m (3.625% '22)	301.8					301.8
US bond \$81.2m (4.75% '21)	490.4					490.4
£ bonds £200m (6.375% '20)	200.0					200.0
£ bonds £400m (6.0% '17)	400.0				400.0	
Bank revolver (\$1,200m and £475m)	1,199.4			1,199.4		
Eurobonds €750m (6.625% '16)	624.3			624.3		
Eurobonds €500m (5.25% '15)	416.2		416.2			
US bond \$600m (8.0% '14)	362.2	362.2				
US bond \$369m (5.875% '14)	222.5	222.5				
TNS private placements \$25m	15.1	15.1				
Total committed facilities available	5,339.1	599.8	416.2	1,823.7	400.0	2,099.4
Drawn down facilities at 31 December 2013	4,139.7	599.8	416.2	624.3	400.0	2,099.4
Undrawn committed credit facilities	1,199.4					
Drawn down facilities at 31 December 2013	4,139.7					
Net cash at 31 December 2013	(1,883.2)					
Other adjustments	(16.1)					
Net debt at 31 December 2013	2,240.4					

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 activities

Treasury activity is managed centrally from London, New York and Hong Kong, and is principally concerned with the monitoring of working capital, managing external and internal funding requirements and the monitoring and management of financial market risks, in particular interest rate and foreign exchange exposures.

The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of Directors and subject to regular review and audit.

The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained in excess of peak net-borrowing levels and debt maturities are closely monitored. Targets for average net debt are set on an annual basis and, to assist in meeting this, working capital targets are set for all the Group's major operations.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 10, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and in notes 26 and 27.

Credit risk

The Group's principal financial assets are cash and short-term deposits, trade and other receivables and investments, the carrying values of which represent the Group's maximum exposure to credit risk in relation to financial assets, as shown in note 25.

The Group's credit risk is primarily attributable to its trade receivables. The majority of the Group's trade receivables are due from large national or multinational companies where the risk of default is considered low. The amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. A relatively small number of clients make up a significant percentage of the Group's debtors, but no single client represents more than 7% of total trade receivables as at 31 December 2013.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or banks that have been financed by their government.

A relatively small number of clients contribute a significant percentage of the Group's consolidated revenues. The Group's clients generally are able to reduce advertising and marketing spending or cancel projects at any time for any reason. There can be no assurance that any of the Group's clients will continue to utilise the Group's services to the same extent, or at all, in the future. A significant reduction in advertising and marketing spending by, or the loss of one or more of, the Group's largest clients, if not replaced by new client accounts or an increase in business from existing clients, would adversely affect the Group's prospects, business, financial condition and results of operations.

Sensitivity analysis

The following sensitivity analysis addresses the effect of currency and interest rate risks on the Group's financial instruments. The analysis assumes that all hedges are highly effective.

Currency risk

A 10% weakening of sterling against the Group's major currencies would result in the following losses, which would be posted directly to equity. These losses would arise on the retranslation of foreign currency denominated borrowings and derivatives designated as effective net investment hedges of overseas net assets. These losses would be partially offset in equity by a corresponding gain arising on the retranslation of the related hedged foreign currency net assets. A 10% strengthening of sterling would have an equal and opposite effect. There are no other material foreign exchange exposures which would create gains or losses to the functional reporting currencies of individual entities in the Group.

	2013 £m	2012 £m
US dollar	61.2	85.3
Euro	44.4	69.8

Interest rate risk

A one percentage point increase in market interest rates for all currencies in which the Group had cash and borrowings at 31 December 2013 would increase profit before tax by approximately £13.7 million (2012: £4.0 million). A one percentage decrease in market interest rates would have an equal and opposite effect. This has been calculated by applying the interest rate change to the Group's variable rate cash and borrowings.

25. Financial instruments

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows and the exchange risk arising on translation of the Group's investments in foreign operations. The Group is a party to a variety of foreign currency derivatives in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 December 2013, the fair value of the Group's currency derivatives is estimated to be a net liability of approximately £7.4 million (2012: £44.4 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £50.6 million (2012: £60.8 million) assets included in trade and other receivables and £58.0 million (2012: £105.2 million) liabilities included in trade and other payables. The amounts taken to and deferred in equity during the year for currency derivatives that are designated and effective hedges was a credit of £56.1 million (2012: credit of £42.7 million) for net investment hedges and a charge of £32.1 million (2012: £1.0 million) for cash flow hedges.

Changes in the fair value relating to the ineffective portion of the currency derivatives amounted to a gain of £12.9 million (2012: loss of £9.4 million, 2011: gain of £3.1 million) which is included in the revaluation of financial instruments for the year. This gain resulted from a £36.9 million gain on hedging instruments and a £24.0 million loss on hedged items.

The Group currently designates its foreign currency-denominated debt and cross-currency swaps as hedging instruments against the currency risk associated with the translation of its foreign operations.

At the balance sheet date, the total nominal amount of outstanding forward foreign exchange contracts not designated as hedges was £52.5 million (2012: £63.6 million). The Group estimates the fair value of these contracts to be a net asset of £1.2 million (2012: £0.5 million).

These arrangements are designed to address significant exchange exposure and are renewed on a revolving basis as required.

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Interest rate swaps

The Group uses interest rate swaps as hedging instruments in fair value hedges to manage its exposure to interest rate movements on its borrowings. Contracts with a nominal value of €500 million have fixed interest receipts of 5.25% up until January 2015 and have floating interest payments averaging EURIBOR plus 0.80%. Contracts with a nominal value of €100 million have fixed interest payments of 5.56% until June 2014 and have floating rate receipts averaging EURIBOR plus 0.96%. Contracts with a nominal value of £200 million have fixed interest receipts of 6.00% up until April 2017 and have floating rate payments averaging LIBOR plus 0.64%.

A contract with a nominal value of \$25 million has fixed interest receipts averaging 6.34% until on average July 2014 and has floating rate payments averaging LIBOR plus 0.61%.

The fair value of interest rate swaps entered into at 31 December 2013 is estimated to be a net asset of approximately £57.7 million (2012: £102.8 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £61.2 million (2012: £108.7 million) assets included in trade and other receivables and £3.5 million (2012: £5.9 million) liabilities included in trade and other payables.

Changes in the fair value relating to the ineffective portion of interest rate swaps amounted to a loss of £2.4 million (2012: gain of £0.6 million, 2011: loss of £9.5 million) which is included in the revaluation of financial instruments for the year. This loss resulted from a £44.4 million loss on hedging instruments and a £42.0 million gain on hedged items.

An analysis of the Group's financial assets and liabilities by accounting classification is set out below:

	Derivatives in designated hedge relationships £m	Held for trading £m	Loans & receivables £m	Available for sale £m	Amortised cost £m	Carrying value £m
2013						
Other investments	-	-	-	270.6	-	270.6
Cash and short-term deposits	-	-	2,221.6	-	-	2,221.6
Bank overdrafts and loans	-	-	-	-	(941.4)	(941.4)
Bonds and bank loans	-	-	-	-	(3,520.6)	(3,520.6)
Trade and other receivables: amounts falling due within one year	-	-	6,350.5	-	-	6,350.5
Trade and other receivables: amounts falling due after more than one year	-	-	55.2	-	-	55.2
Trade and other payables: amounts falling due within one year	-	-	-	-	(7,197.4)	(7,197.4)
Trade and other payables: amounts falling due after more than one year	-	-	-	-	(4.7)	(4.7)
Derivative assets	111.8	1.4	-	-	-	113.2
Derivative liabilities	(61.5)	(0.2)	-	-	-	(61.7)
Payments due to vendors (earnout agreements)	-	(193.5)	-	-	-	(193.5)
Liabilities in respect of put options	-	(139.1)	-	-	-	(139.1)
	50.3	(331.4)	8,627.3	270.6	(11,664.1)	(3,047.3)
2012						
Other investments	-	-	-	176.5	-	176.5
Cash and short-term deposits	-	-	1,945.3	-	-	1,945.3
Bank overdrafts and loans	-	-	-	-	(1,085.9)	(1,085.9)
Bonds and bank loans	-	-	-	-	(3,680.6)	(3,680.6)
Trade and other receivables: amounts falling due within one year	-	-	6,605.4	-	-	6,605.4
Trade and other receivables: amounts falling due after more than one year	-	-	69.7	-	-	69.7
Trade and other payables: amounts falling due within one year	-	-	-	-	(7,306.5)	(7,306.5)
Trade and other payables: amounts falling due after more than one year	-	-	-	-	(14.2)	(14.2)
Derivative assets	169.5	0.7	-	-	-	170.2
Derivative liabilities	(111.1)	(0.2)	-	-	-	(111.3)
Share purchases - close period commitments	-	(18.2)	-	-	-	(18.2)
Payments due to vendors (earnout agreements)	-	(194.0)	-	-	-	(194.0)
Liabilities in respect of put options	-	(144.3)	-	-	-	(144.3)
	58.4	(356.0)	8,620.4	176.5	(12,087.2)	(3,587.9)

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:

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).

	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m
2013				
Derivatives in designated hedge relationships				
Derivative assets	-	111.8	-	111.8
Derivative liabilities	-	(61.5)	-	(61.5)
Held for trading				
Derivative assets	-	1.4	-	1.4
Derivative liabilities	-	(0.2)	-	(0.2)
Payments due to vendors (earnout agreements) (note 19)	-	-	(193.5)	(193.5)
Liabilities in respect of put options	-	-	(139.1)	(139.1)
Available for sale				
Other investments	23.0	-	247.6	270.6
	23.0	51.5	(85.0)	(10.5)

	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m
2012				
Derivatives in designated hedge relationships				
Derivative assets	-	169.5	-	169.5
Derivative liabilities	-	(111.1)	-	(111.1)
Held for trading				
Derivative assets	-	0.7	-	0.7
Derivative liabilities	-	(0.2)	-	(0.2)
Share purchases – close period commitments	(18.2)	-	-	(18.2)
Payments due to vendors (earnout agreements) (note 19)	-	-	(194.0)	(194.0)
Liabilities in respect of put options	-	-	(144.3)	(144.3)
Available for sale				
Other investments	-	-	176.5	176.5
	(18.2)	58.9	(161.8)	(121.1)

Reconciliation of level 3 fair value measurements¹:

	Liabilities in respect of put options £m	Other investments £m	Carrying value £m
1 January 2012	(168.3)	190.8	22.5
Losses recognised in the income statement	(5.1)	(15.1)	(20.2)
Losses recognised in other comprehensive income	-	(3.5)	(3.5)
Exchange adjustments	11.6	(6.1)	5.5
Additions	(4.6)	24.8	20.2
Disposals	-	(14.4)	(14.4)
Settlements	22.1	-	22.1
31 December 2012	(144.3)	176.5	32.2
Losses recognised in the income statement	(1.1)	-	(1.1)
Gain recognised in other comprehensive income	-	72.0	72.0
Exchange adjustments	8.9	(1.4)	7.5
Additions	(12.9)	5.5	(7.4)
Disposals	-	(5.0)	(5.0)
Settlements	10.3	-	10.3
31 December 2013	(139.1)	247.6	108.5

Note

¹ Refer to note 19 for the reconciliation of payments due to vendors (earnout agreements).

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.

Payments due to vendors and liabilities in respect of put options

Future anticipated payments due to vendors in respect of contingent consideration (earnout agreements) and liabilities in respect of put option agreements are recorded at fair value, which is the present value of the expected cash outflows of the obligations. These 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 2013, the weighted average growth rate in estimating future financial performance was 18.7%, which reflects the prevalence of recent acquisitions in the faster growing markets and new media sectors.

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 £5.1 million and £4.5 million, respectively. An increase in the liability would result in a reduction in the revaluation of financial instruments, while a decrease would result in a further 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.

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26. Authorised and issued share capital

	Equity ordinary shares	Nominal value £m
Authorised		
At 1 January 2012 – WPP 2012 Limited (formerly WPP plc)	1,750,000,000	175.0
At 31 December 2012 – WPP 2012 Limited (formerly WPP plc)	1,750,000,000	175.0
At 31 December 2013 – WPP plc	1,750,000,000	175.0
Issued and fully paid		
At 1 January 2013	1,265,407,107	126.5
Conversion of bond	17,006	–
At 2 January 2013 – shares in WPP 2012 Limited (formerly WPP plc) of 10p each	1,265,424,113	126.5
On formation of WPP plc		
Group reconstruction – shares in WPP 2012 Limited (formerly WPP plc) exchange for shares in WPP plc of 10p each	1,265,424,113	126.5
Conversion of bond	76,496,557	7.7
Exercise of share options	6,812,647	0.7
At 31 December 2013	1,348,733,317	134.9

On 2 January 2013 under a scheme of arrangement between WPP 2012 Limited (formerly WPP plc), the former holding company of the Group, and its share owners under Article 125 of the Companies (Jersey) Law 1991, all the issued shares in that company were cancelled and the same number of shares were issued to WPP plc (formerly WPP 2012 plc) in consideration for the allotment to share owners of one ordinary share in WPP plc for each ordinary share in WPP 2012 Limited held on that date.

In the above table the figures up to 2 January 2013 relate to shares in WPP 2012 Limited. Subsequent movements relate to shares in WPP plc.

WPP 2012 plc was incorporated on 25 October 2012 with an authorised share capital of £175,000,000 and 2 issued ordinary shares of 10 pence each. On 2 January 2013 as part of the scheme of arrangement noted above, a further 1,265,424,113 ordinary shares were issued at a price of £8.88 each, whereby WPP 2012 plc became the new holding company of the Group. It was renamed WPP plc.

Company's own shares

The Company's holdings of own shares are stated at cost and represent shares held in treasury and purchases by the Employee Share Ownership Plan (ESOP) trusts of shares in WPP plc for the purpose of funding certain of the Group's share-based incentive plans, details of which are disclosed in the Compensation Committee report on pages 130 to 165.

The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds provided by the Company. The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its administrative costs. The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 2013 was 24,048,113 (2012: 22,570,364), and £331.9 million (2012: £200.4 million) respectively. The number and market value of ordinary shares held in treasury at 31 December 2013 was 1,370,700 and £18.9 million respectively. There were no ordinary shares held in treasury at 31 December 2012.

Share options

WPP Executive Share Option Scheme

As at 31 December 2013, unexercised options over ordinary shares of 365,841 and unexercised options over ADRs of 88,305 have been granted under the WPP Executive Share Option Scheme as follows:

	Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
	21,830	5.520	2008-2014
	257,032	5.535	2007-2014
	11,423	5.775	2009-2015
	10,872	5.818	2008-2015
	14,304	5.895	2008-2015
	8,536	5.903	2011-2018
	14,721	6.718	2009-2016
	12,447	7.378	2014-2021
	7,935	7.723	2010-2017
	3,696	8.333	2015-2022
	3,045	10.595	2016-2023
	Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
	822	30.410	2011-2018
	887	50.670	2008-2015
	68,525	50.800	2007-2014
	1,073	51.220	2007-2014
	898	55.740	2008-2015
	4,350	57.020	2008-2015
	8,981	58.460	2009-2016
	844	59.170	2011-2018
	938	63.900	2009-2020
	987	75.940	2010-2017

WPP Worldwide Share Ownership Program

As at 31 December 2013, unexercised options over ordinary shares of 11,116,559 and unexercised options over ADRs of 1,417,829 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
10,250	4.819	2011-2018
12,750	5.435	2007-2014
4,750	5.483	2012-2016
254,325	5.483	2012-2019
1,375	5.483	2012-2020
99,982	5.483	2013-2019
20,625	5.608	2012-2019
375	5.775	2008-2015
7,800	5.913	2011-2018
10,375	5.917	2011-2018
150,200	6.028	2011-2018
40,400	6.195	2008-2015
2,134,085	6.268	2014-2021
71,826	6.268	2014-2018
300,767	6.268	2015-2021
625	6.668	2009-2017
6,750	6.740	2009-2016
82,150	6.938	2009-2016
6,500	7.005	2010-2017
5,875	7.113	2013-2017
741,867	7.113	2013-2020
213,851	7.113	2014-2020
15,250	7.478	2011-2017
52,848	7.543	2014-2021
147,575	7.718	2010-2017
2,949,258	8.458	2015-2022
125,000	13.505	2016-2020
3,266,625	13.505	2016-2023
382,500	13.505	2017-2023

Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
73,535	44.560	2012-2019
282,144	49.230	2014-2021
3,005	49.880	2007-2014
127,557	56.560	2013-2020
52,110	59.500	2011-2018
16,820	59.520	2008-2015
28,600	60.690	2009-2016
340,678	67.490	2015-2022
48,135	75.760	2010-2017
445,245	110.760	2016-2023

24/7 Real Media, Inc. 2002 Stock Incentive Plan

As at 31 December 2013, unexercised options over ADRs of 23,078 have been granted under the 24/7 Real Media, Inc. 2002 Stock Incentive Plan as follows:

Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
92	15.8800	2007-2014
187	20.0700	2007-2015
79	23.1800	2007-2015
263	24.2000	2007-2014
50	25.1500	2007-2014
3,654	27.5000	2007-2015
89	38.8700	2007-2015
14,980	40.6500	2007-2015
115	49.6000	2007-2016
89	50.4900	2007-2016
78	52.5900	2008-2017
157	53.4800	2008-2017
314	54.1100	2007-2016
944	54.2400	2007-2016
314	55.2600	2007-2016
74	55.6400	2007-2016
157	56.2700	2007-2016
574	56.7200	2007-2016
157	58.9400	2007-2017
393	60.0200	2007-2016
78	61.2300	2008-2017
108	61.9200	2007-2016
54	64.6500	2007-2016
78	65.5400	2007-2016

Taylor Nelson Sofres Plc 1999 Worldwide Employee Sharesave Plan

As at 31 December 2013, unexercised options over ordinary shares of 81,138 have been granted under the Taylor Nelson Sofres plc 1999 Worldwide Employee Sharesave Plan as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
76,216	1.7300	2013-2015
2,644	2.6500	2012-2014
2,278	3.0000	2011-2014

The aggregate status of the WPP Share Option Plans during 2013 was as follows:

Movements on options granted (represented in ordinary shares)

	1 January 2013	Granted	Exercised	Lapsed	Outstanding 31 December 2013	Exercisable 31 December 2013
WPP	2,813,304	3,045	(1,969,302)	(39,681)	807,366	788,178
WWOP	18,819,836	6,080,400	(4,129,291)	(2,565,241)	18,205,704	3,368,609
24/7	153,200	-	(34,220)	(3,590)	115,390	68,160
TNS	775,351	-	(679,834)	(14,379)	81,138	81,138
	22,561,691	6,083,445	(6,812,647)	(2,622,891)	19,209,598	4,306,085

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Weighted-average exercise price for options over

	1 January 2013	Granted	Exercised	Lapsed	Outstand- ing 31 December 2013	Exer- cisable 31 December 2013
Ordinary shares (£)						
WPP	5.647	10.595	5.598	5.558	5.801	5.675
WWOP	7.163	13.505	6.775	7.536	9.378	6.613
TNS	1.748	-	1.731	2.252	1.796	1.796
ADRs (\$)						
WPP	50.373	-	49.420	48.593	52.250	52.250
WWOP	58.581	110.760	58.516	59.924	74.990	57.540
24/7	39.735	-	36.298	48.491	40.480	40.363

Options over ordinary shares

Outstanding

	Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
	1.730 – 13.505	9.212	99

Options over ADRs

Outstanding

	Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
	15.88 – 110.76	73.156	93

As at 31 December 2013 there was £9.9 million (2012: £8.5 million) of total unrecognised compensation cost related to share options. That cost is expected to be recognised over a weighted average period of 20 months (2012: 20 months).

Share options are satisfied out of newly issued shares.

The weighted average fair value of options granted in the year calculated using the Black-Scholes model was as follows:

	2013	2012	2011
Fair value of UK options (shares)	160.0p	135.3p	120.6p
Fair value of US options (ADRs)	\$12.92	\$10.90	\$9.20
Weighted average assumptions:			
UK Risk-free interest rate	1.20%	0.56%	0.84%
US Risk-free interest rate	0.95%	0.51%	0.67%
Expected life (months)	48	48	48
Expected volatility	20%	27%	30%
Dividend yield	2.8%	2.8%	2.5%

Options are issued at an exercise price equal to market value on the date of grant.

The weighted average share price of the Group for the year ended 31 December 2013 was £11.63 (2012: £8.17, 2011: £7.11) and the weighted average ADR price for the same period was \$91.22 (2012: \$64.90, 2011: \$57.09).

Expected volatility is sourced from external market data and represents the historic volatility in the Group's share price over a period equivalent to the expected option life.

Expected life is based on a review of historic exercise behaviour in the context of the contractual terms of the options, as described in more detail below.

Terms of share option plans

The Worldwide Share Ownership Program is open for participation to employees with at least two years' employment in the Group. It is not available to those participating in other share-based incentive programs or to executive directors. The vesting period for each grant is three years and there are no performance conditions other than continued employment with the Group.

The Executive Stock Option Plan has historically been open for participation to WPP Group Leaders, Partners and High Potential Group. It is not currently offered to parent company executive directors. The vesting period is three years and performance conditions include achievement of various TSR (Total Share Owner Return) and EPS (Earnings Per Share) objectives, as well as continued employment. In 2005, the Group moved away from the issuance of stock options for Leaders, Partners and High Potential Group and has since largely made grants of restricted stock instead (note 22).

The Group grants stock options with a life of 10 years, including the vesting period. The terms of stock options with performance conditions are such that if, after nine years and eight months, the performance conditions have not been met, then the stock option will vest automatically.

27. Other reserves

Other reserves comprise the following:

	Capital redemption reserve £m	Equity reserve £m	Revaluation reserve £m	Translation reserve £m	Total other reserves £m
1 January 2012	0.7	(87.6)	25.3	1,000.5	938.9
Exchange adjustments on foreign currency net investments	-	-	-	(298.4)	(298.4)
Loss on revaluation of available for sale investments	-	-	(3.5)	-	(3.5)
Recognition and remeasurement of financial instruments	-	2.7	-	-	2.7
Share cancellations	0.7	-	-	-	0.7
Treasury share cancellations	0.6	-	-	-	0.6
Share purchases – close period commitments	-	(18.3)	-	-	(18.3)
31 December 2012	2.0	(103.2)	21.8	702.1	622.7
Reclassification due to Group reconstruction	(2.0)	-	-	-	(2.0)
Reclassification of convertible bond	-	(44.5)	-	-	(44.5)
Deferred tax on convertible bond	-	9.7	-	-	9.7
Exchange adjustments on foreign currency net investments	-	-	-	(356.5)	(356.5)
Gain on revaluation of available for sale investments	-	-	72.0	-	72.0
Recognition and remeasurement of financial instruments	-	(2.4)	-	-	(2.4)
Share purchases – close period commitments	-	18.3	-	-	18.3
31 December 2013	-	(122.1)	93.8	345.6	317.3

28. Acquisitions

The Group accounts for acquisitions in accordance with IFRS 3 Business Combinations. IFRS 3 requires the acquiree's identifiable assets, liabilities and contingent liabilities (other than non-current assets or disposal groups held for sale) to be recognised at fair value at acquisition date. In assessing fair value at acquisition date, management make their best estimate of the likely outcome where the fair value of an asset or liability may be contingent on a future event. In certain instances, the underlying transaction giving rise to an estimate may not be resolved until some years after the acquisition date. IFRS 3 requires the release to profit of any acquisition reserves which subsequently become excess in the same way as any excess costs over those provided at acquisition date are charged to profit. At each period end management assess provisions and other balances established in respect of acquisitions for their continued probability of occurrence and amend the relevant value accordingly through the consolidated income statement or as an adjustment to goodwill as appropriate under IFRS 3.

The Group acquired a number of subsidiaries in the year. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group. The fair value adjustments for certain acquisitions have been determined provisionally at the balance sheet date.

	Book value at acquisition £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	0.4	45.5	45.9
Property, plant and equipment	7.4	-	7.4
Cash	25.0	-	25.0
Trade receivables due within one year	66.4	(0.8)	65.6
Other current assets	25.0	-	25.0
Total assets	124.2	44.7	168.9
Current liabilities	(76.8)	-	(76.8)
Trade and other payables due after one year	(1.3)	(9.7)	(11.0)
Deferred tax liabilities	0.7	(12.8)	(12.1)
Provisions	(1.5)	(12.4)	(13.9)
Total liabilities	(78.9)	(34.9)	(113.8)
Net assets	45.3	9.8	55.1
Non-controlling interests			(22.8)
Fair value of equity stake in associate undertakings before acquisition of controlling interest			(53.0)
Goodwill			225.4
Consideration			204.7
Consideration satisfied by:			
Cash			164.1
Payments due to vendors			40.6

Goodwill arising from acquisitions represents the value of synergies with our existing portfolio of businesses and skilled staff to deliver services to our clients. Goodwill that is expected to be deductible for tax purposes is £38.9 million.

Our 2013 financial statements

Notes to the consolidated financial statements

Non-controlling interests in acquired companies are measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The contribution to revenue and operating profit of acquisitions completed in the year was not material. There were no material acquisitions completed between 31 December 2013 and the date the financial statements have been authorised for issue.

29. Principal subsidiary undertakings

The principal subsidiary undertakings of the Group are:

	Country of incorporation
Grey Global Group, Inc	US
J. Walter Thompson Company, Inc	US
GroupM Worldwide, Inc	US
The Ogilvy Group, Inc	US
Young & Rubicam, Inc	US
TNS Group Holdings Ltd	UK

All of these subsidiaries are operating companies and are 100% owned by the Group.

A more detailed listing of the operating subsidiary undertakings is given on pages 12 and 13. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

30. Related party transactions

From time to time the Group enters into transactions with its associate undertakings. These transactions were not material for any of the years presented.

31. Reconciliation to non-GAAP measures of performance

The non-GAAP measures of performance shown below have been included to provide the users of the financial statements with a better understanding of the key performance indicators of the business.

Reconciliation of profit before interest and taxation to headline PBIT:

	2013 £m	2012 £m	2011 £m
Profit before interest and taxation	1,478.4	1,310.5	1,258.3
Amortisation and impairment of acquired intangible assets	179.8	171.9	172.0
Goodwill impairment	23.3	32.0	-
Gains on disposal of investments	(6.0)	(26.8)	(0.4)
Gains on remeasurement of equity on acquisition of controlling interest	(30.0)	(5.3)	(31.6)
Investment write-downs	0.4	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	5.0	93.4	-
Share of exceptional losses/(gains) of associates	10.7	3.0	(2.1)
Headline PBIT	1,661.6	1,531.0	1,429.0
Finance income	64.3	55.9	64.7
Finance costs	(203.6)	(269.8)	(264.6)
Interest cover on headline PBIT	8.2 times	7.2 times	7.1 times

Reconciliation of profit before taxation to headline PBT and headline earnings:

	2013 £m	2012 £m	2011 £m
Profit before taxation	1,295.8	1,091.9	1,008.4
Amortisation and impairment of acquired intangible assets	179.8	171.9	172.0
Goodwill impairment	23.3	32.0	-
Gains on disposal of investments	(6.0)	(26.8)	(0.4)
Gains on remeasurement of equity on acquisition of controlling interest	(30.0)	(5.3)	(31.6)
Investment write-downs	0.4	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	5.0	93.4	-
Share of exceptional losses/(gains) of associates	10.7	3.0	(2.1)
Revaluation of financial instruments	(21.0)	4.7	50.0
Headline PBT	1,458.0	1,317.1	1,229.1
Headline tax charge	(294.3)	(278.9)	(270.4)
Non-controlling interests	(75.6)	(72.0)	(76.4)
Headline earnings	1,088.1	966.2	882.3
Ordinary dividends paid	397.3	322.2	239.5
Dividend cover on headline earnings	2.7 times	3.0 times	3.7 times

Calculation of headline EBITDA:

	2013 £m	2012 £m	2011 £m
Headline PBIT (as above)	1,661.6	1,531.0	1,429.0
Depreciation of property, plant and equipment	202.0	191.0	185.8
Amortisation of other intangible assets	32.7	33.7	25.7
Headline EBITDA	1,896.3	1,755.7	1,640.5

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

	Margin %	2013 £m	Margin %	2012 £m	Margin %	2011 £m
Revenue		11,019.4		10,373.1		10,021.8
Headline PBIT	15.1%	1,661.6	14.8%	1,531.0	14.3%	1,429.0
Share of results of associates (excluding exceptional losses)		(78.8)		(72.4)		(64.0)
Headline operating profit	14.4%	1,582.8	14.1%	1,458.6	13.6%	1,365.0

Headline gross margin margins before and after share of results of associates:

	Margin %	2013 £m	Margin %	2012 £m	Margin %	2011 £m
Gross profit		10,076.1		9,514.8		9,238.5
Headline PBIT	16.5%	1,661.6	16.1%	1,531.0	15.5%	1,429.0
Share of results of associates (excluding exceptional gains/losses)		(78.8)		(72.4)		(64.0)
Headline operating profit	15.7%	1,582.8	15.3%	1,458.6	14.8%	1,365.0

Headline diluted earnings per ordinary share:

	2013 £m	2012 £m	2011 £m
Headline earnings	1,088.1	966.2	882.3
Earnings adjustment:			
Dilutive effect of convertible bonds	10.6	26.1	26.1
Weighted average number of ordinary shares	1,360,346,724	1,352,599,279	1,342,216,388
Headline diluted earnings per ordinary share	80.8p	73.4p	67.7p

Reconciliation of free cash flow:

	2013 £m	2012 £m	2011 £m
Cash generated by operations	1,784.1	1,291.1	1,033.5
Plus:			
Interest received	51.3	56.6	63.2
Investment income	10.1	1.2	0.6
Dividends from associates	56.7	44.7	57.2
Share option proceeds	42.4	56.0	28.8
Proceeds on disposal of property, plant and equipment	7.3	123.5	13.2
Movement in working capital and provisions	133.4	388.2	620.9
Less:			
Interest and similar charges paid	(254.7)	(228.3)	(241.4)
Purchases of property, plant and equipment	(240.7)	(290.3)	(216.1)
Purchases of other intangible assets (including capitalised computer software)	(43.8)	(39.8)	(37.1)
Corporation and overseas tax paid	(273.3)	(257.0)	(247.9)
Dividends paid to non-controlling interests in subsidiary undertakings	(53.2)	(51.9)	(62.2)
Free cash flow	1,219.6	1,094.0	1,012.7

Company profit and loss account

For the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Turnover		–	–
Operating costs		(6.0)	–
Operating loss		(6.0)	–
Income from shares in subsidiary undertakings		257.5	–
Interest receivable and similar income	33	38.1	–
Interest payable and similar charges	34	(138.4)	–
Profit on ordinary activities before taxation		151.2	–
Taxation on profit on ordinary activities	35	–	–
Profit on ordinary activities after taxation		151.2	–

Note

The accompanying notes form an integral part of this profit and loss account.

All results are derived from continuing activities.

There are no recognised gains or losses other than those shown above and accordingly no statement of total recognised gains and losses has been prepared.

Company balance sheet

As at 31 December 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investments	36	12,662.6	–
		12,662.6	–
Current assets			
Debtors	37	1,619.6	–
		1,619.6	–
Creditors: amounts falling due within one year	38	(1,687.6)	–
Net current liabilities		(68.0)	–
Total assets less current liabilities		12,594.6	–
Creditors: amounts falling due after more than one year	39	(1,022.5)	–
Net assets		11,572.1	–
Capital and reserves			
Called-up share capital	41	134.9	–
Share premium account	41	483.4	–
Shares to be issued	41	0.5	–
Own shares	41	(14.3)	–
Profit and loss account	41	10,967.6	–
Equity share owners' funds		11,572.1	–

Note

The accompanying notes form an integral part of this balance sheet.

The financial statements were approved by the Board of Directors and authorised for issue on 16 April 2014.

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Notes to the Company financial statements

32. Accounting policies

The principal accounting policies of WPP plc (the Company) are summarised below. These accounting policies have all been applied consistently throughout the year and preceding year.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies (Jersey) Law 1991. The financial statements are prepared on a going concern basis, further details of which are in the Directors' report on page 187.

b) Translation of foreign currency

Foreign currency transactions arising from operating activities are translated from local currency into pounds sterling at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are translated at the period-end exchange rate. Foreign currency gains or losses are credited or charged to the profit and loss account as they arise.

c) Investments

Fixed asset investments are stated at cost less provision for impairment.

d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted.

e) UITF 44: Group and treasury share transactions

Where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, UITF 44 requires the subsidiary to record an expense for such compensation in accordance with FRS 20 (Share-based payments), with a corresponding increase recognised in equity as a contribution from the parent. Consequently, in the financial statements of the parent (WPP plc), the Company has recognised an addition to fixed asset investments of the aggregate amount of these contributions of £105.4 million in 2013 (2012: £nil), with a credit to equity for the same amount.

33. Interest receivable and similar income

	2013 £m	2012 £m
Interest receivable from subsidiary undertakings	13.0	–
Interest receivable on financial instruments	25.1	–
	38.1	–

34. Interest payable and similar charges

	2013 £m	2012 £m
Interest payable on corporate bonds	100.5	–
Bank and other interest payable	20.5	–
Interest payable to subsidiary undertakings	17.4	–
	138.4	–

35. Taxation on loss on ordinary activities

The tax assessed for the year differs from that resulting from applying the blended rate of corporation tax in the UK of 23.25%. The differences are explained below:

	2013 £m	2012 £m
Profit on ordinary activities before tax	151.2	–
Tax at the blended rate of 23.25% thereon	(35.1)	–
Factors affecting tax charge for the year:		
Non-taxable dividend income	59.9	–
Unrecognised losses carried forward	(24.8)	–
Current tax charge for the year	–	–

36. Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Subsidiary undertakings £m
1 January 2013	–
Additions	12,662.6
31 December 2013	12,662.6

Fixed asset investments primarily represent 100% of the issued share capital of WPP Jubilee Limited, a company incorporated in Great Britain. Fixed asset investments were purchased in a share-for-share exchange. At 31 December 2013 cost and net book value were the same. Details of indirect subsidiaries are given in note 29.

37. Debtors

The following are included in debtors:

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	1,610.6	–
Other debtors	9.0	–
	1,619.6	–

38. Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	2013 £m	2012 £m
Bank overdraft	1,518.8	-
Amounts due to subsidiary undertakings	119.6	-
Interest payable on corporate bonds	44.3	-
Other creditors and accruals	4.9	-
	1,687.6	-

39. Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	2013 £m	2012 £m
Corporate bonds	1,022.5	-

40. Derivatives not included at fair value

The company has derivatives which are not included at fair value in the accounts:

	Fair value 2013 £m	Fair value 2012 £m
Cross currency swaps	(9.7)	-
Interest rate swaps	32.7	-
	23.0	-

The Company uses the derivatives to hedge its exposures to changes in interest rates and foreign currency exchange rates within the WPP Group. The fair values are based on market values of equivalent instruments at the balance sheet date.

41. Equity share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Own shares £m	Profit and loss account £m
Ordinary shares issued under the scheme of arrangement	126.5	11,110.4	1.8	-	-
Capital reduction	-	(11,110.4)	-	-	11,110.4
Ordinary shares issued	0.7	41.6	(1.3)	-	1.2
Share issue/cancellation costs	-	(0.4)	-	-	-
Shares issued on conversion of bond	7.7	442.2	-	-	-
Treasury share additions	-	-	-	(17.6)	-
Treasury share allocations	-	-	-	3.3	(3.3)
Net profit for the year	-	-	-	-	151.2
Dividends paid	-	-	-	-	(397.3)
Equity granted to employees of subsidiaries	-	-	-	-	105.4
31 December 2013	134.9	483.4	0.5	(14.3)	10,967.6

Reconciliation of movements in equity share owners' funds for the year ended 31 December 2013:

	2013 £m	2012 £m
Profit for the year	151.2	-
Equity granted to employees of subsidiaries	105.4	-
Ordinary shares issued under the scheme of arrangement	11,238.7	-
Ordinary shares issued	42.2	-
Dividends paid	(397.3)	-
Shares issued on conversion of bond	449.9	-
Share issue/cancellation costs	(0.4)	-
Treasury share additions	(17.6)	-
Net addition to equity share owners' funds	11,572.1	-
Opening equity share owners' funds	-	-
Closing equity share owners' funds	11,572.1	-

At 31 December 2013 the Company's distributable reserves amounted to £10,862.1 million (2012: £nil). Further details of the Company's share capital are shown in note 26.

The entire balance standing to the credit of the share premium account was transferred to retained earnings as sanctioned by The Royal Court of Jersey. As a result £11,110.4 million was added to retained earnings for the Company.

42. Guarantees and other financial commitments

The Company guarantees a number of Group banking arrangements and other financial commitments on behalf of certain subsidiary undertakings.

Independent auditors' report

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's and the parent company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991.

The financial statements comprise the accounting policies, the consolidated income statement (excluding the US dollar information), the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated balance sheet, the consolidated statement of changes in equity, the parent company profit and loss account and balance sheet and the related notes 1 to 42. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the accounting policies to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 187 that the Group is a going concern.

We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. As part of our risk assessment procedures we obtained an understanding of and tested the design, implementation and operating effectiveness of internal controls that respond to the identified risks, in addition to performing the substantive audit procedures detailed below.

Risk	How the scope of our substantive audit procedures responded to the risk
<p>Revenue recognition</p> <p>Accounting for media volume income: assessing the timing of recognition and valuation of media volume income earned on media contracts in accordance with the underlying contractual terms is an area of complexity.</p>	<p>We challenged the timing of recognition and valuation of media volume income earned on media contracts and assessed the ageing of balance sheet provisions. We checked that management could demonstrate that persuasive evidence exists in respect of the arrangement with the supplier at the time it is recorded. We also closely monitored the trend of media volume income recognised against prior year activity.</p>
<p>Goodwill</p> <p>Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates.</p>	<p>The Group is highly acquisitive. As such, given the magnitude of the goodwill balance and the continued economic uncertainty in certain countries, the valuation of goodwill is considered a significant audit risk. In order to address this key audit risk we have audited the assumptions used in the impairment model for goodwill. In doing so, we challenged the key assumptions used, including specifically the operating cash flow projections, discount rates, and long term growth rates and compared these assumptions to externally derived data (where applicable) as well as forming our own assessment with the assistance of our internal fair value specialists. We considered the sensitivity of the impairment testing model to changes in key assumptions.</p> <p>We also considered the adequacy of the Group's disclosures in respect of its goodwill impairment testing and whether disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions properly reflected the risks inherent in such assumptions.</p>
<p>Taxation</p> <p>There is uncertainty in respect of resolving matters with tax authorities around the world. Therefore assessing the Group's exposure to significant tax risks and the level of provisions recognised is an area of judgement.</p>	<p>The highly disaggregated nature of the Group coupled with its acquisitive nature means that there are a number of different tax jurisdictions in which the Group could be liable to pay tax, making potential tax exposures a key audit risk. We considered all significant taxation exposures across the Group. We challenged the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held.</p> <p>We reviewed correspondence with taxation authorities in significant locations, as well as reviewing the support or opinions received from external counsel and other advisors where management has utilised such opinions to make assumptions on the level of taxation payable.</p>

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our 2013 financial statements

Independent auditors' report

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £52.5 million, which is below 5% of pre-tax profit, and below 1% of equity.

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £0.5 million for the consolidated income statement and £1.0 million for the consolidated balance sheet, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As a result of the highly disaggregated nature of the Group, with operations in 110 countries and more than 3,000 offices among 150 or more companies within the Group, a significant portion of audit planning time is spent to ensure the scope of our work is appropriate to address the Group's identified risks of material misstatement. In selecting the components that are in scope each year, we refresh and update our understanding of the Group and its environment, including obtaining an understanding of the Group's system of internal controls, in order to check that the units selected provide an appropriate basis on which to undertake audit work to address the identified risks of material misstatement. Such audit work represents a combination of procedures, all of which are designed to target the Group's identified risks of material misstatement in the most effective manner possible. Our Group audit scope

provides for substantive audit coverage of over 78% of the Group's consolidated revenue; achieved through a combination of direct testing and specified audit procedures (including substantive analytical review procedures) performed by the Group auditor and/or component auditors across the world. Our audit work at the components is executed at levels of materiality appropriate for such components, which in all instances are lower than Group materiality. We perform analytical procedures at a Group level on the remainder of the Group to confirm our original risk assessment, that the risk of material misstatement is low. The Group audit team plans its visits to component auditors based on a carefully derived program; one that is put in place to check that appropriate oversight and guidance is provided to the component auditors, and which is designed so that the Senior Statutory Auditor visits all key locations across the Group.

Opinion on other matters

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 as if that act had applied to the Company;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and

explanations we require for our audit; or

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the UK Listing rules we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement

Under the UK Listing Rules we are also required to review the part of the corporate governance statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our

knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our 2013 financial statements

Independent auditors' report

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Graham Richardson (Senior Statutory Auditor) for
and on behalf of Deloitte LLP**

London, United Kingdom

16 April 2014

Five-year summary

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Income statement					
Billings ¹	46,209.3	44,405.3	44,791.8	42,683.6	37,919.4
Revenue	11,019.4	10,373.1	10,021.8	9,331.0	8,684.3
Gross profit	10,076.1	9,514.8	9,238.5	8,560.5	7,980.7
Operating profit	1,410.3	1,241.1	1,192.2	973.0	761.7
Headline EBITDA ²	1,896.3	1,755.7	1,640.5	1,439.0	1,243.0
Headline PBIT ²	1,661.6	1,531.0	1,429.0	1,228.7	1,017.2
Profit before taxation	1,295.8	1,091.9	1,008.4	851.3	662.6
Headline PBT ²	1,458.0	1,317.1	1,229.1	1,033.6	812.2
Profit for the year	1,012.1	894.7	916.5	661.0	506.9
Balance sheet					
Non-current assets	13,255.2	13,452.9	13,406.2	13,087.6	12,756.2
Net current liabilities	(22.0)	(671.9)	(508.6)	(817.3)	(971.0)
Non-current trade and other payables	(820.2)	(887.3)	(932.6)	(870.4)	(908.8)
Provisions for liabilities and charges (including provisions for post-employment benefits)	(395.2)	(472.2)	(436.3)	(403.1)	(404.7)
Net assets	7,846.5	7,060.6	6,894.3	6,647.9	6,075.7
Net debt	(2,240.4)	(2,821.2)	(2,464.8)	(1,888.4)	(2,640.4)
Average net debt	(2,988.7)	(3,202.5)	(2,811.0)	(3,056.0)	(3,448.0)
	2013	2012	2011	2010	2009
Our people					
Revenue per employee (£000)	94.1	90.6	91.1	92.0	82.5
Gross profit per employee (£000)	86.0	83.1	84.0	84.4	75.8
Staff cost per employee (£000)	55.3	53.3	53.4	53.6	48.6
Average headcount	117,115	114,490	109,971	101,387	105,318
Share information					
Headline ³ – basic earnings per share	84.1p	77.7p	71.0p	59.3p	45.1p
– diluted earnings per share	80.8p	73.4p	67.7p	56.7p	44.4p
Reported – basic earnings per share	72.4p	66.2p	67.6p	47.5p	35.9p
– diluted earnings per share	69.6p	62.8p	64.5p	45.9p	35.3p
Dividends per share ⁴	34.21p	28.51p	24.60p	17.79p	15.47p
Share price – high	1,383.0p	894.5p	846.5p	795.0p	614.5p
– low	905.5p	669.0p	578.0p	572.5p	353.0p
Market capitalisation at year-end (£m)	18,612.5	11,236.8	8,554.4	9,982.4	7,658.3

Notes

¹ Billings is defined on page 246.

² The calculation of 'headline' measures of performance (including headline EBITDA, headline PBIT and headline PBT) is set out in note 31 of the financial statements.

³ Headline earnings per share for 2013, 2012 and 2011 is set out in note 9 of the financial statements.

⁴ Dividends per share represents the dividends declared in respect of each year.

The information on this page is unaudited.

Financial glossary

Term used in Annual Report	US equivalent or brief description
Allotted	Issued
ADRs/ADSs	American Depositary Receipts/American Depositary Shares. The Group uses the terms ADR and ADS interchangeably. One ADR/ADS represents five ordinary shares
Average net debt and net debt	Average net debt is calculated as the average daily net borrowings of the Group. Net debt at a period 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	Billings comprise the gross amounts billed to clients in respect of commission-based/fee-based income together with the total of other fees earned
Called-up share capital	Ordinary shares, issued and fully paid
Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council dated June 2008
Constant currency	The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying budgeted 2013 exchange rates to local currency reported results for the current and prior year. This gives a US dollar-denominated income statement which exclude any variances attributable to foreign exchange rate movements
ESOP	Employee share ownership plan
Estimated net new billings	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
EURIBOR	The euro area inter-bank offered rate for euro deposits
Finance lease	Capital lease
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
Freehold	Ownership with absolute rights in perpetuity
Gross margin/gross profit/net sales	The Group uses the terms gross margin, gross profit and net sales interchangeably. Headline gross margin margin (also referred to as net sales margin) is calculated as headline PBIT 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 EBITDA	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 intangible assets, share of exceptional losses/gains of associates, depreciation of property, plant and equipment 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

Term used in Annual Report	US equivalent or brief description
Headline operating profit	PBIT excluding share of results of associates before investment gains/losses and write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of acquired intangible assets 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 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 losses/gains 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 losses/gains of associates, gains/losses arising from the revaluation of financial instruments, gains/losses on remeasurement of equity interest on acquisition of controlling interest and Group restructuring costs; and, in 2012, the gain on sale of freehold property in New York, and costs incurred in changing the corporate structure of the Group
IFRS/IAS	International Financial Reporting Standard/International Accounting Standard
LIBOR	The London inter-bank offered rate
OCI	Consolidated statement of comprehensive income
Operating margin	Headline PBIT as a percentage of revenue
Profit	Income
Profit attributable to equity holders of the parent	Net income
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
Sarbanes-Oxley Act	An Act passed in the US to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Turnbull Report	Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code and the UK Corporate Governance Code at the request of the London Stock Exchange
UK Corporate Governance Code	The UK Corporate Governance Code published by the Financial Reporting Council dated June 2010

