

# 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 178.

### 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 substantively 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 £102.2 million in 2014 (2013: £105.4 million), with a credit to equity for the same amount.

### f) Foreign currency and interest rate hedging

The Company'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 Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company 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 Company 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 41 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.

## 33. Interest receivable and similar income

	2014 £m	2013 £m
Interest receivable from subsidiary undertakings	2.1	13.0
Interest receivable on financial instruments	0.3	25.1
	2.4	38.1

## 34. Interest payable and similar charges

	2014 £m	2013 £m
Interest payable on corporate bonds	64.8	100.5
Bank and other interest payable	16.2	20.5
Interest payable to subsidiary undertakings	13.2	17.4
	94.2	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 21.50% (2013: 23.25%). The differences are explained below:

	2014 £m	2013 £m
(Loss)/profit on ordinary activities before tax	(67.4)	151.2
Tax at the blended rate of 21.50% thereon	14.5	(35.1)
Factors affecting tax charge for the year:		
Revaluation of financial instruments	3.1	-
Non-taxable dividend income	-	59.9
Unrecognised losses carried forward	(17.6)	(24.8)
Current tax charge for the year	-	-

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## 36. Fixed asset investments

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

	Subsidiary undertakings £m
1 January 2014	12,662.6
Additions	102.2
<b>31 December 2014</b>	<b>12,764.8</b>

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 2014 cost and net book value were the same. Details of indirect subsidiaries are given in note 29.

## 37. Debtors: amounts falling due within the year

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

	2014 £m	2013 £m
Amounts owed by subsidiary undertakings	1,612.1	1,610.6
Other debtors	0.5	9.0
	<b>1,612.6</b>	<b>1,619.6</b>

## 38. Debtors: amounts falling due after one year

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

	2014 £m	2013 £m
Fair value of derivatives	27.7	–

## 39. Creditors: amounts falling due within one year

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

	2014 £m	2013 £m
Bank overdrafts	1,411.9	1,518.8
Amounts due to subsidiary undertakings	888.0	119.6
Interest payable on corporate bonds	45.1	44.3
Share purchases – close period commitments	78.8	–
Other creditors and accruals	1.1	4.9
	<b>2,424.9</b>	<b>1,687.6</b>

## 40. Creditors: amounts falling due after more than one year

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

	2014 £m	2013 £m
Corporate bonds	1,002.1	1,022.5
Amounts due to subsidiary undertakings	741.9	–
	<b>1,744.0</b>	<b>1,022.5</b>

Corporate bonds include £400 million of 6% bonds due April 2017 and €750 million of 6.625% bonds due May 2016.

## 41. Financial instruments

### Currency derivatives

The Company utilises currency derivatives to hedge significant future transactions and cash flows and the exchange risk arising on translation of the Company's investments in foreign operations. The Company 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 principal markets of the Company's indirect investments.

At 31 December 2014, the fair value of the Company's currency derivatives is estimated to be £nil.

Changes in the fair value relating to the ineffective portion of the currency derivatives amounted to a gain of £10.0 million which is included in the revaluation of financial instruments for the year. This gain resulted from a £10.0 million gain on hedged items.

The amounts taken to and deferred in equity during the year for currency derivatives that are designated and effective hedges was a charge of £10.0 million.

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

### Interest rate swaps

The Company 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 £200 million have fixed interest receipts of 6.00% until April 2017 and have floating rate payments averaging LIBOR plus 0.65%.

The fair value of interest rate swaps entered into at 31 December 2014 is estimated to be an asset of £27.7 million. These amounts are based on market values of equivalent instruments at the balance sheet date and are included within debtors: amounts falling due after one year.

Changes in the fair value relating to the ineffective portion of interest rate swaps amounted to a loss of £0.6 which is included in the revaluation of financial instruments for the year. This gain resulted from a £20.0 million gain on hedging instruments and a £20.6 million loss on hedged items.

An analysis of the Company'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	Amortised cost £m	Carrying value £m
<b>2014</b>					
Cash at bank and in hand	-	-	429.3	-	429.3
Bank overdrafts	-	-	-	(1,411.9)	(1,411.9)
Corporate bonds	-	-	-	(1,002.1)	(1,002.1)
Trade and other receivables: amounts falling due within one year	-	-	1,612.6	-	1,612.6
Trade and other payables: amounts falling due within one year	-	-	-	(888.0)	(888.0)
Trade and other payables: amounts falling due after more than one year	-	-	-	(741.9)	(741.9)
Derivative assets	27.7	-	-	-	27.7
Share purchases – close period commitments	-	(78.8)	-	-	(78.8)
	27.7	(78.8)	2,041.9	(4,043.9)	(2,053.1)

## 42. Equity share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium £m	Shares to be issued £m	Other reserves £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m
<b>1 January 2014</b>	134.9	483.4	0.5	-	-	(14.3)	10,967.6
Ordinary shares issued	0.4	24.6	(0.2)	-	-	-	0.2
Treasury share additions	-	-	-	-	-	(412.5)	-
Treasury share allocations	-	-	-	-	-	0.6	(0.6)
Treasury share cancellations	(2.7)	-	-	-	2.7	332.5	(332.5)
Net loss for the year	-	-	-	-	-	-	(67.4)
Dividends paid	-	-	-	-	-	-	(460.0)
Equity granted to employees of subsidiaries	-	-	-	-	-	-	102.2
Exchange adjustments of foreign currency net investments	-	-	-	(10.0)	-	-	-
Share purchases – close period commitments	-	-	-	(80.0)	-	-	(3.9)
<b>31 December 2014</b>	<b>132.6</b>	<b>508.0</b>	<b>0.3</b>	<b>(90.0)</b>	<b>2.7</b>	<b>(93.7)</b>	<b>10,205.6</b>

Other reserves at 31 December 2014 comprise an equity reserve of £80.0 million (2013: £nil) and a translation reserve of £10.0 million (2013: £nil).

Reconciliation of movements in equity share owners' funds for the year ended 31 December 2014:

	2014 £m	2013 £m
(Loss)/profit for the year	(67.4)	151.2
Equity granted to employees of subsidiaries	102.2	105.4
Ordinary shares issued under the scheme of arrangement	-	11,238.7
Ordinary shares issued	25.0	42.2
Dividends paid	(460.0)	(397.3)
Shares issued on conversion of bond	-	449.9
Share issue/cancellation costs	-	(0.4)
Treasury share additions	(412.5)	(17.6)
Exchange adjustments of foreign currency net investments	(10.0)	-
Share purchases – close period commitments	(83.9)	-
Net (reduction)/addition to equity share owners' funds	(906.6)	11,572.1
Opening equity share owners' funds	11,572.1	-
Closing equity share owners' funds	10,665.5	11,572.1

At 31 December 2014 the Company's distributable reserves amounted to £10,001.7 million (2013: £10,862.1 million). Further details of the Company's share capital are shown in note 26.

## 43. Guarantees and other financial commitments

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