

Notes to the consolidated financial statements

For the year ended 31 December 2014

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	Net sales £m	Headline PBIT ² £m	Net sales margin ³ %
Income statement				
2014				
Advertising and Media Investment Management	5,134.3	4,502.0	836.2	18.6
Data Investment Management	2,429.3	1,748.9	272.7	15.6
Public Relations & Public Affairs	891.9	880.4	139.2	15.8
Branding & Identity, Healthcare and Specialist Communications	3,073.4	2,933.5	432.5	14.7
	11,528.9	10,064.8	1,680.6	16.7
2013				
Advertising and Media Investment Management	4,578.8	4,463.6	824.4	18.5
Data Investment Management	2,549.7	1,843.7	263.8	14.3
Public Relations & Public Affairs	920.7	907.5	133.8	14.7
Branding & Identity, Healthcare and Specialist Communications	2,970.2	2,861.3	439.6	15.4
	11,019.4	10,076.1	1,661.6	16.5
2012				
Advertising and Media Investment Management	4,273.2	4,201.3	754.5	18.0
Data Investment Management	2,460.2	1,768.9	246.9	14.0
Public Relations & Public Affairs	917.1	901.1	136.4	15.1
Branding & Identity, Healthcare and Specialist Communications	2,722.6	2,643.5	393.2	14.9
	10,373.1	9,514.8	1,531.0	16.1

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 Net sales margin is defined in note 31.

	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						
2014						
Advertising and Media Investment Management	48.6	91.0	102.6	16.9	25.1	395.5
Data Investment Management	18.8	48.1	50.9	–	18.4	119.3
Public Relations & Public Affairs	7.9	7.4	12.6	–	3.9	60.1
Branding & Identity, Healthcare and Specialist Communications	26.9	67.9	62.8	–	14.5	185.0
	102.2	214.4	228.9	16.9	61.9	759.9
2013						
Advertising and Media Investment Management	55.5	127.2	102.2	–	35.0	486.3
Data Investment Management	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	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

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.

	Assets			Liabilities		
	Segment assets £m	Unallocated corporate assets ¹ £m	Consolidated total assets £m	Segment liabilities £m	Unallocated corporate liabilities ¹ £m	Consolidated total liabilities £m
Balance sheet						
2014						
Advertising and Media Investment Management	12,250.5			(9,803.5)		
Data Investment Management	3,427.1			(1,045.7)		
Public Relations & Public Affairs	1,744.7			(400.0)		
Branding & Identity, Healthcare and Specialist Communications	6,433.5			(1,622.3)		
	23,855.8	2,898.0	26,753.8	(12,871.5)	(6,055.5)	(18,927.0)
2013						
Advertising and Media Investment Management	11,787.6			(8,919.1)		
Data Investment Management	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	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)

Notes

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

Our 2014 financial statements

Notes to the consolidated financial statements

Contributions by geographical area were as follows:

	2014 £m	2013 £m	2012 £m
Revenue¹			
North America ⁴	3,899.9	3,744.7	3,546.5
UK	1,640.3	1,414.0	1,275.2
Western Continental Europe	2,568.8	2,592.6	2,439.2
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,419.9	3,268.1	3,112.2
	11,528.9	11,019.4	10,373.1

Net sales

North America ⁴	3,471.7	3,547.0	3,365.0
UK	1,396.0	1,303.9	1,155.7
Western Continental Europe	2,142.6	2,217.8	2,121.5
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,054.5	3,007.4	2,872.6
	10,064.8	10,076.1	9,514.8

Headline PBIT²

North America ⁴	621.8	616.5	578.6
UK	221.2	204.7	173.3
Western Continental Europe	277.2	272.0	252.9
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	560.4	568.4	526.2
	1,680.6	1,661.6	1,531.0

Net sales margin³

	Margin	Margin	Margin
North America ⁴	17.9%	17.4%	17.2%
UK	15.8%	15.7%	15.0%
Western Continental Europe	12.9%	12.3%	11.9%
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	18.3%	18.9%	18.3%
	16.7%	16.5%	16.1%

Notes

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

² Headline PBIT is defined in note 31.

³ Net sales margin is defined in note 31.

⁴ North America includes the US with revenue of £3,664.9 million (2013: £3,498.1 million, 2012: £3,309.4 million), net sales of £3,254.2 million (2013: £3,310.8 million, 2012: £3,138.7 million) and headline PBIT of £588.2 million (2013: £582.6 million, 2012: £547.8 million).

	2014 £m	2013 £m
Non-current assets¹		
North America ²	5,686.9	5,125.5
UK	1,793.9	1,772.2
Western Continental Europe	3,463.8	3,562.6
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,012.0	2,620.2
	13,956.6	13,080.5

Notes

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

² North America includes the US with non-current assets of £5,101.0 million (2013: £4,479.5 million).

3. Operating costs

	2014 £m	2013 £m	2012 £m
Staff costs (note 5)	6,440.5	6,477.1	6,106.1
Establishment costs	711.3	727.4	690.6
Other operating costs (net)	1,405.7	1,461.3	1,477.0
Total operating costs	8,557.5	8,665.8	8,273.7
Operating costs include:			
Goodwill impairment (note 12)	16.9	23.3	32.0
Investment write-downs	7.3	0.4	19.6
Gain on sale of freehold property in New York	-	-	(71.4)
Cost of changes to corporate structure	-	-	4.1
Restructuring costs	127.6	5.0	93.4
Amortisation and impairment of acquired intangible assets (note 12)	147.5	179.8	171.9
Amortisation of other intangible assets (note 12)	31.6	32.7	33.7
Depreciation of property, plant and equipment	191.7	195.5	184.2
(Gains)/losses on sale of property, plant and equipment	(0.8)	(0.4)	0.7
Gains on disposal of investments and subsidiaries	(186.3)	(6.0)	(26.8)
Gains on remeasurement of equity interest on acquisition of controlling interest	(9.2)	(30.0)	(5.3)
Net foreign exchange (gains)/losses	(2.5)	(1.1)	7.7

Operating lease rentals:

Land and buildings	466.1	483.0	464.6
Sublease income	(11.2)	(13.2)	(23.0)
	454.9	469.8	441.6
Plant and machinery	19.9	21.1	21.9
	474.8	490.9	463.5

In 2014, operating profit includes credits totalling £24.9 million (2013: £19.9 million, 2012: £19.8 million) relating to the release of excess provisions and other balances established in respect of acquisitions completed prior to 2013. 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 £7.3 million (2013: £0.4 million, 2012: £19.6 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.

Gains on disposal of investments and subsidiaries of £186.3 million (2013: £6.0 million, 2012: £26.8 million) include £150.6 million of gains arising on the sale of the Xaxis for Publishers business to AppNexus Inc and the Kantar Media US television measurement business to Rentrak Inc. In both cases, consideration received was in the form of equity issued by the buyer. The Group also recognised a gain of £10.0 million as a result of a reduction in the Group's equity interest in oOh! Media in Australia.

In 2014 restructuring costs of £127.6 million comprise £88.7 million of costs (including £67.4 million of severance costs) arising from a structural reassessment of certain of the Group's operations, primarily in the mature markets of Western Europe; and £38.9 million of costs resulting from the project to transform and rationalise the Group's IT services and infrastructure.

In 2013, the Group incurred restructuring costs of £5.0 million as a result of the project to transform and rationalise the Group's IT services and infrastructure. 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:

	2014 £m	2013 £m	2012 £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	14.5	15.1	14.6
	15.9	16.5	16.0
Other services pursuant to legislation	3.1	3.1	3.1
Fees payable to the auditors pursuant to legislation	19.0	19.6	19.1
Tax advisory services	2.1	2.3	2.5
Tax compliance services	1.0	1.2	1.0
	3.1	3.5	3.5
Corporate finance services	0.3	0.2	0.5
Other services ¹	5.4	4.8	3.9
Total non-audit fees	8.8	8.5	7.9
Total fees	27.8	28.1	27.0

Note

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

Minimum committed annual rentals

Amounts payable in 2015 under leases will be as follows:

	Plant and machinery			Land and buildings		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
In respect of operating leases which expire:						
- within one year	5.3	4.1	4.1	66.7	26.3	34.8
- within two to five years	10.8	13.1	13.0	223.9	195.2	166.1
- after five years	0.1	0.1	0.2	139.4	139.7	145.4
	16.2	17.3	17.3	430.0	361.2	346.3

Future minimum annual amounts payable under all lease commitments in existence at 31 December 2014 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ending 31 December			
2015	446.2	(7.3)	438.9
2016	339.2	(4.8)	334.4
2017	279.3	(3.3)	276.0
2018	255.9	(2.4)	253.5
2019	210.2	(2.0)	208.2
Later years	1,178.0	(3.9)	1,174.1
	2,708.8	(23.7)	2,685.1

4. Share of results of associates

Share of results of associates include:

	2014 £m	2013 £m	2012 £m
Share of profit before interest and taxation	101.8	111.0	105.1
Share of exceptional losses	(7.6)	(10.7)	(3.0)
Share of interest and non-controlling interests	(3.1)	(4.6)	(1.6)
Share of taxation	(29.2)	(27.6)	(31.1)
	61.9	68.1	69.4

5. Our people

Our staff numbers averaged 121,397 for the year ended 31 December 2014 against 117,115 in 2013 and 114,490 in 2012, including acquisitions. Their geographical distribution was as follows:

	2014	2013	2012
North America	26,809	28,093	27,782
UK	12,838	11,925	11,413
Western Continental Europe	23,376	23,559	23,322
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	58,374	53,538	51,973
	121,397	117,115	114,490

Their operating sector distribution was as follows:

	2014	2013	2012
Advertising and Media Investment Management	52,329	49,505	48,662
Data Investment Management	28,240	29,586	28,989
Public Relations & Public Affairs	8,392	8,298	8,437
Branding & Identity, Healthcare and Specialist Communications	32,436	29,726	28,402
	121,397	117,115	114,490

At the end of 2014 staff numbers were 123,621 (2013: 119,116, 2012: 115,711). Including all employees of associated undertakings, this figure was approximately 179,000 at 31 December 2014 (2013: 175,000, 2012: 165,000).

Our 2014 financial statements

Notes to the consolidated financial statements

Staff costs include:

	2014 £m	2013 £m	2012 £m
Wages and salaries	4,467.8	4,481.4	4,289.7
Cash-based incentive plans	210.7	222.2	198.1
Share-based incentive plans (note 22)	102.2	105.4	92.8
Social security costs	567.8	577.3	524.7
Pension costs (note 23)	148.9	151.3	148.7
Severance	37.4	26.9	50.8
Other staff costs ¹	905.7	912.6	801.3
	6,440.5	6,477.1	6,106.1
Staff cost to net sales ratio	64.0%	64.3%	64.2%

Note

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

Included above are charges of £16.9 million (2013: £16.9 million, 2012: £15.6 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 123 to 157.

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

Finance income includes:

	2014 £m	2013 £m	2012 £m
Income from available for sale investments	26.0	10.1	1.2
Interest income	68.7	54.2	54.7
	94.7	64.3	55.9

Finance costs include:

	2014 £m	2013 £m	2012 £m
Net interest expense on pension plans ¹ (note 23)	8.0	11.4	11.3
Interest on other long-term employee benefits	1.9	1.7	1.7
Interest payable and similar charges ²	252.8	254.8	256.8
	262.7	267.9	269.8

Revaluation of financial instruments³ include:

	2014 £m	2013 £m	2012 £m
Movements in fair value of treasury instruments	31.3	6.3	(14.8)
Movements in fair value of other derivatives	15.0	-	-
Revaluation of put options over non-controlling interests	(8.8)	(1.1)	(5.1)
Revaluation of payments due to vendors (earnout agreements)	13.2	15.8	15.2
	50.7	21.0	(4.7)

Notes

¹ Comparative figures for 2012 have been restated to reflect the requirements of IAS 19.

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 \$2,862 million of US dollar bonds at an average interest rate of 4.48%, €2,750 million of Eurobonds at an average interest rate of 4.19% and £600 million of Sterling bonds at an average interest rate of 6.13%.

Average borrowings under the Revolving Credit Facilities (note 10) amounted to the equivalent of \$45 million at an average interest rate of 0.95%.

Average borrowings under the US Commercial Paper Program for 2014 amounted to \$280 million at an average interest rate of 0.34% inclusive of margin.

7. Taxation

The headline tax rate was 20.0% (2013: 20.2%) and is defined below. The tax rate on reported PBT was 20.7% (2013: 21.9%).

Cash taxes paid in the year were £289.9 million (2013: £273.3 million). The cash tax rate on headline PBT was 19.2% (2013: 18.7%).

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

	2014 £m	2013 £m	2012 £m
Corporation tax			
Current year	373.5	359.1	335.5
Prior years	4.4	(48.1)	(41.7)
Credit relating to restructuring costs	-	-	(15.7)
Charge relating to gains on disposal of investments and subsidiaries	21.4	-	-
	399.3	311.0	278.1
Deferred tax			
Current year	(69.7)	(9.0)	(14.4)
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	(23.2)	(10.6)	(86.0)
Gain on sale of freehold property in New York	-	-	20.0
Credit relating to restructuring costs	(14.1)	-	-
Gains on disposal of investments and subsidiaries	13.8	-	-
	(93.2)	(19.6)	(80.4)
Prior years	(5.7)	(7.7)	(0.5)
	(98.9)	(27.3)	(80.9)
Tax charge	300.4	283.7	197.2

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

	2014 £m	2013 £m	2012 £m
Profit before taxation	1,451.9	1,295.8	1,091.9
Tax at the corporation tax rate of 21.5% ¹	312.2	301.3	273.0
Tax effect of share of results of associates	(13.3)	(15.8)	(17.4)
Irrecoverable withholding taxes	24.2	30.7	23.7
Items that are not deductible/(taxable) in determining taxable profit	14.2	(27.3)	(31.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	12.9	17.6	13.9
Origination and reversal of temporary differences	10.6	35.5	(39.2)
Tax losses not utilised in the year	52.1	40.6	45.4
Utilisation of tax losses not previously recognised	(42.2)	(28.3)	(18.6)
Recognition of temporary differences	(69.0)	(14.8)	(10.2)
Net release of prior-year provisions in relation to acquired businesses	(17.4)	(11.6)	(20.6)
Other prior-year adjustments	16.1	(44.2)	(21.6)
Tax charge	300.4	283.7	197.2
Effective tax rate on profit before tax	20.7%	21.9%	18.1%

Note

¹ The parent company of the Group was tax resident in the UK for 2014 and 2013, and tax resident in Ireland for 2012. As such, the tax rate in the tax reconciliation for 2014 is the blended UK corporation tax rate of 21.5% (2013: 23.25%). For 2012, the tax rate is the Irish non-trading corporation tax rate of 25%.

The calculation of the headline tax rate is as follows:

	2014	2013	2012
	£m	£m	£m
Headline PBT ¹	1,512.6	1,458.0	1,317.1
Tax charge	300.4	283.7	197.2
Tax charge relating to gains on disposal of investments and subsidiaries	(21.4)	-	-
Deferred tax credit relating to restructuring costs	14.1	-	-
Deferred tax relating to gains on disposal of investments and subsidiaries	(13.8)	-	-
Deferred tax on gain on sale of freehold property in New York	-	-	(20.0)
Tax credit relating to restructuring costs	-	-	15.7
Net deferred tax credit in relation to the amortisation of acquired intangible assets and other goodwill items	23.2	10.6	86.0
Headline tax charge	302.5	294.3	278.9
Headline tax rate	20.0%	20.2%	21.2%

Note

¹ Headline PBT is defined in note 31.

8. Ordinary dividends

Amounts recognised as distributions to equity holders in the year:

Per share	2014	2013	2012	2014	2013	2012
	Pence per share			£m	£m	£m
2013 Final dividend	23.65p	19.71p	17.14p	309.5	258.0	212.8
2014 Interim dividend ¹	11.62p	10.56p	8.80p	150.5	139.3	109.4
	35.27p	30.27p	25.94p	460.0	397.3	322.2

Per ADR ²	2014	2013	2012	2014	2013	2012
	Cents per share			\$m	\$m	\$m
2013 Final dividend	185.01¢	156.22¢	137.39¢	484.1	409.0	341.2
2014 Interim dividend ¹	95.72¢	82.61¢	69.75¢	248.0	218.0	173.5
	280.73¢	238.83¢	207.14¢	732.1	627.0	514.7

Proposed final dividend for the year ended 31 December 2014:

Per share	2014	2013	2012
	Pence per share		
Final dividend ¹	26.58p	23.65p	19.71p

Per ADR ²	2014	2013	2012
	Cents per ADR		
Final dividend ¹	218.95¢	185.01¢	156.22¢

Notes

¹ First interim dividend in 2012.

² These figures have been translated for convenience purposes only, using the approximate average rate for the year shown on page 190. 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:

	2014	2013	2012
Reported earnings ¹ (£m)	1,077.2	936.5	822.7
Headline earnings (£m) (note 31)	1,135.8	1,088.1	966.2
Average shares used in basic EPS calculation (m)	1,307.4	1,293.8	1,243.4
Reported EPS	82.4p	72.4p	66.2p
Headline EPS	86.9p	84.1p	77.7p

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:

	2014	2013	2012
Diluted reported earnings (£m)	1,077.2	947.1	848.8
Diluted headline earnings (£m)	1,135.8	1,098.7	992.3
Average shares used in diluted EPS calculation (m)	1,337.5	1,360.3	1,352.6
Diluted reported EPS	80.5p	69.6p	62.8p
Diluted headline EPS	84.9p	80.8p	73.4p

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 years ended 31 December 2013 and 2012 these convertible bonds were dilutive and earnings were consequently increased by £10.6 million and £26.1 million respectively for the purpose of the calculation of diluted earnings. At 31 December 2014, options to purchase 10.7 million ordinary shares (2013: 6.0 million, 2012: 6.3 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.

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

	2014	2013	2012
	m	m	m
Average shares used in basic EPS calculation	1,307.4	1,293.8	1,243.4
Dilutive share options outstanding	4.8	6.8	4.9
Other potentially issuable shares	25.3	30.8	27.8
£450 million 5.75% convertible bonds	-	28.9	76.5
Shares used in diluted EPS calculation	1,337.5	1,360.3	1,352.6

At 31 December 2014 there were 1,325,747,724 (2013: 1,348,733,317) ordinary shares in issue.

Our 2014 financial statements

Notes to the consolidated financial statements

10. Sources of finance

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

	Shares		Debt	
	2014 £m	2013 £m	2014 £m	2013 £m
Analysis of changes in financing				
Beginning of year	618.3	302.4	4,123.6	4,180.5
Ordinary shares issued	25.0	42.4	-	-
Reclassification due to Group reconstruction ¹	-	(176.0)	-	-
Treasury share cancellations	(2.7)	-	-	-
Share issue/cancellation costs	-	(0.4)	-	-
Shares issued on conversion of bond	-	449.9	-	-
Net increase/(decrease) in drawings on bank loans, corporate bonds and convertible bonds	-	-	465.2	(13.1)
Amortisation of financing costs included in net debt	-	-	6.5	8.3
Other movements	-	-	(57.8)	(48.0)
Exchange adjustments	-	-	(14.5)	(4.1)
End of year	640.6	618.3	4,523.0	4,123.6

Notes

¹ 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 was transferred to retained earnings.

The table above excludes bank overdrafts which fall within cash and cash equivalents for the purposes of the consolidated cash flow statement.

Shares

At 31 December 2014, the Company's share base was entirely composed of ordinary equity share capital and share premium of £640.6 million (2013: £618.3 million), further details of which are disclosed in note 26.

Debt

US\$ bonds The Group has in issue \$812 million of 4.75% bonds due November 2021, \$500 million of 3.625% bonds due September 2022, \$300 million of 5.125% bonds due September 2042 and \$500 million of 5.625% bonds due November 2043. In September 2014, the Group issued \$750 million of 3.75% bonds due September 2024.

Eurobonds The Group has in issue €500 million of 5.25% bonds due January 2015, €750 million of 6.625% bonds due May 2016 and €750 million of 3% bonds due November 2023. In September 2014, the Group issued €750 million of 2.250% bonds due September 2026.

In March 2015, the Group issued €600 million of 1.625% bonds due March 2030 and €252 million of 0.43% bonds due March 2018. €252 million of the 0.43% bonds were issued in exchange for €252 million of the 6.625% bonds due May 2016. Consequently the amount in issue of the 6.625% bonds due May 2016 has reduced to €498 million.

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 Facility The Group has a five-year Revolving Credit Facility of \$2.5 billion due July 2019, signed in July 2014. The Group's borrowing under these facilities, which are drawn down predominantly in US dollars and pounds sterling, averaged the equivalent of \$45 million in 2014. The Group had available undrawn committed credit facilities of \$1,604.5 million at December 2014 (2013: £1,199.4 million).

Borrowings under the Revolving Credit Facility 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 its Revolving Credit Facility as a backstop. The average commercial paper outstanding in 2014 was \$279.7 million. There was no US Commercial Paper outstanding at 31 December 2014.

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:

	2014 £m	2013 £m
Within one year	(578.4)	(807.8)
Between one and two years	(748.4)	(575.3)
Between two and three years	(533.7)	(757.5)
Between three and four years	(125.7)	(500.0)
Between four and five years	(125.7)	(92.0)
Over five years	(4,192.3)	(2,968.3)
Debt financing (including interest) under the Revolving Credit Facility and in relation to unsecured loan notes	(6,304.2)	(5,700.9)
Short-term overdrafts – within one year	(265.1)	(338.4)
Future anticipated cash flows	(6,569.3)	(6,039.3)
Effect of discounting/financing rates	1,781.2	1,577.3
Debt financing	(4,788.1)	(4,462.0)
Cash and short-term deposits	2,512.7	2,221.6
Net debt	(2,275.4)	(2,240.4)

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

2014 Currency	£m	Fixed rate ¹	Floating basis	Period (months) ²
\$ – fixed	1,547.2	4.56%	n/α	234
– floating	753.2	n/α	LIBOR	n/α
£ – fixed	400.0	6.19%	n/α	58
– floating	200.0	n/α	LIBOR	n/α
€ – fixed	1,747.7	3.96%	n/α	89
– floating	1.4	n/α	EURIBOR	n/α
Other	(126.5)	n/α	n/α	n/α
	4,523.0			

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 2014 the amount still to be written to income was £nil (2013: £0.2 million) in respect of US dollar swap terminations.

2013		Fixed	Floating	Period	
Currency	£m	rate ¹	basis	(months) ¹	
\$	- 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.

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
2014				
Within one year	632.6	498.5	569.0	642.6
Between one and two years	1.1	0.4	22.0	37.9
Between two and three years	26.1	25.4	250.2	262.2
Between three and four years	-	-	25.3	24.8
Between four and five years	-	-	26.4	24.8
Over five years	-	-	576.4	570.9
	659.8	524.3	1,469.3	1,563.2
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

11. Analysis of cash flows

The following tables analyse the items included within the main cash flow headings on page 192.

Net cash from operating activities:

	2014 £m	2013 £m	2012 £m
Profit for the year	1,151.5	1,012.1	894.7
Taxation	300.4	283.7	197.2
Revaluation of financial instruments	(50.7)	(21.0)	4.7
Finance costs	262.7	267.9	269.8
Finance income	(94.7)	(64.3)	(55.9)
Share of results of associates	(61.9)	(68.1)	(69.4)
Operating profit	1,507.3	1,410.3	1,241.1
Adjustments for:			
Non-cash share-based incentive plans (including share options)	102.2	105.4	92.8
Depreciation of property, plant and equipment	197.3	202.0	191.0
Impairment of goodwill	16.9	23.3	32.0
Amortisation and impairment of acquired intangible assets	147.5	179.8	171.9
Amortisation of other intangible assets	31.6	32.7	33.7
Investment write-downs	7.3	0.4	19.6
Gains on disposal of investments and subsidiaries	(186.3)	(6.0)	(26.8)
Gains on remeasurement of equity interest on acquisition of controlling interest	(9.2)	(30.0)	(5.3)
Gain on sale of freehold property in New York	-	-	(71.4)
(Gains)/losses on sale of property, plant and equipment	(0.8)	(0.4)	0.7
Operating cash flow before movements in working capital and provisions	1,813.8	1,917.5	1,679.3
(Increase)/decrease in inventories and work in progress	(9.7)	36.7	(17.6)
Increase in receivables	(84.0)	(253.3)	(436.4)
Increase in payables - short-term	390.9	67.2	105.3
Increase in payables - long-term	36.5	28.3	4.1
Decrease in provisions	(38.7)	(12.3)	(43.6)
Cash generated by operations	2,108.8	1,784.1	1,291.1
Corporation and overseas tax paid	(289.9)	(273.3)	(257.0)
Interest and similar charges paid	(249.1)	(254.7)	(228.3)
Interest received	69.8	51.3	56.6
Investment income	11.9	10.1	1.2
Dividends from associates	52.2	56.7	44.7
Net cash inflow from operating activities	1,703.7	1,374.2	908.3

Our 2014 financial statements

Notes to the consolidated financial statements

Acquisitions and disposals:

	2014 £m	2013 £m	2012 £m
Initial cash consideration	(382.7)	(165.1)	(462.0)
Cash and cash equivalents acquired (net)	74.4	25.0	46.6
Earnout payments	(34.3)	(27.7)	(85.7)
Loan note redemptions	-	-	(1.0)
Purchase of other investments (including associates)	(188.8)	(45.6)	(111.4)
Proceeds on disposal of investments	42.3	12.0	47.0
Acquisitions and disposals	(489.1)	(201.4)	(566.5)
Cash consideration for non-controlling interests	(5.6)	(19.6)	(20.1)
Net cash outflow	(494.7)	(221.0)	(586.6)

Share repurchases and buy-backs:

	2014 £m	2013 £m	2012 £m
Purchase of own shares by ESOP Trusts	(98.3)	(179.4)	(78.8)
Share cancellations (excluding brokerage fees)	-	-	(55.1)
Shares purchased into treasury	(412.5)	(17.6)	(0.6)
Net cash outflow	(510.8)	(197.0)	(134.5)

Net increase in borrowings:

	2014 £m	2013 £m	2012 £m
Repayment of \$369 million bonds	(235.3)	-	-
Repayment of \$600 million bonds	(333.7)	-	-
Repayment of \$25 million TNS private placements	(14.6)	-	-
Proceeds from issue of €750 million bonds	588.7	624.8	-
Proceeds from issue of \$750 million bonds	460.1	-	-
Proceeds from issue of \$500 million bonds	-	314.2	312.1
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)
Repayment of \$30 million TNS private placements	-	-	(19.2)
Net cash inflow	465.2	436.8	380.5

Cash and cash equivalents:

	2014 £m	2013 £m	2012 £m
Cash at bank and in hand	1,967.0	2,099.1	1,721.4
Short-term bank deposits	545.7	122.5	223.9
Overdrafts ¹	(265.1)	(338.4)	(586.0)
Cash and cash equivalents at end of year	2,247.6	1,883.2	1,359.3

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 2014 and 2013 were as follows:

	£m
Cost:	
1 January 2013	10,042.1
Additions ¹	209.0
Revision of earnout estimates	(5.7)
Exchange adjustments	(179.6)
31 December 2013	10,065.8
Additions ¹	514.0
Revision of earnout estimates	26.4
Exchange adjustments	(23.2)
31 December 2014	10,583.0

Accumulated impairment losses and write-downs:

1 January 2013	584.9
Impairment losses for the year	17.7
Exchange adjustments	(9.6)
31 December 2013	593.0
Impairment losses for the year	8.1
Exchange adjustments	2.5
31 December 2014	603.6

Net book value:

31 December 2014	9,979.4
31 December 2013	9,472.8
1 January 2013	9,457.2

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 are:

	2014 £m	2013 £m
GroupM	2,124.5	2,004.7
Kantar	1,965.0	1,800.9
Wunderman	1,081.0	1,063.7
Y&R Advertising	978.1	956.5
Burson-Marsteller	473.2	463.4
Other	3,357.6	3,183.6
Total goodwill	9,979.4	9,472.8

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 2014 and 2013 were as follows:

	Brands with an indefinite useful life £m	Acquired intan- gibles £m	Other £m	Total £m
Cost:				
1 January 2013	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
Additions	-	-	36.5	36.5
Disposals	-	(33.2)	(16.2)	(49.4)
New acquisitions	-	136.3	2.7	139.0
Other movements ¹	-	12.0	4.0	16.0
Exchange adjustments	11.4	2.7	1.8	15.9
31 December 2014	969.3	1,784.2	313.0	3,066.5

Amortisation and impairment:

1 January 2013	-	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
Charge for the year	-	144.7	31.6	176.3
Disposals	-	(26.9)	(15.4)	(42.3)
Other movements	-	-	2.2	2.2
Exchange adjustments	-	16.7	4.0	20.7
31 December 2014	-	1,187.3	210.3	1,397.6

Net book value:

31 December 2014	969.3	596.9	102.7	1,668.9
31 December 2013	957.9	613.6	96.3	1,667.8
1 January 2013	993.1	746.0	88.3	1,827.4

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 2014 include brand names of £393.0 million (2013: £386.8 million), customer-related intangibles of £197.8 million (2013: £206.5 million), and other assets (including proprietary tools) of £6.1 million (2013: £20.3 million).

The total amortisation and impairment of acquired intangible assets of £147.5 million (2013: £179.8 million) includes £2.8 million (2013: £2.9 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 9.0% (2013: 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% (2013: 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 £16.9 million (2013: £23.3 million) relates to a number of under-performing businesses in the Group, of which £8.8 million (2013: £5.6 million) 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. The key assumptions used for estimating cash flow projections in the Group's impairment testing are those relating to revenue growth and operating margin. The key assumptions take account of the businesses' expectations for the projection period. These expectations consider the macroeconomic environment, industry and market conditions, the unit's historical performance and any other circumstances particular to the unit, such as business strategy and client mix.

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.

Our 2014 financial statements

Notes to the consolidated financial statements

13. Property, plant and equipment

The movements in 2014 and 2013 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 2013	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
Additions	-	0.7	61.9	39.0	76.3	177.9
New acquisitions	-	0.1	4.0	9.8	6.7	20.6
Disposals	-	(0.5)	(43.1)	(30.8)	(81.5)	(155.9)
Exchange adjustments	-	4.2	20.6	(9.1)	(8.9)	6.8
31 December 2014	37.1	110.3	784.7	334.7	598.4	1,865.2
Depreciation:						
1 January 2013	-	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
Charge for the year	-	4.5	68.9	41.1	82.8	197.3
Disposals	-	(1.0)	(40.3)	(26.6)	(80.4)	(148.3)
Exchange adjustments	-	(0.8)	10.9	(2.8)	(6.1)	1.2
31 December 2014	-	22.5	412.4	203.4	454.4	1,092.7
Net book value:						
31 December 2014	37.1	87.8	372.3	131.3	144.0	772.5
31 December 2013	37.1	86.0	368.4	134.1	147.7	773.3
1 January 2013	37.1	99.8	351.7	128.0	151.7	768.3

At the end of the year, capital commitments contracted, but not provided for in respect of property, plant and equipment were £60.9 million (2013: £31.6 million).

14. Interests in associates, joint ventures and other investments

The movements in 2014 and 2013 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 2013	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	(56.7)	-	(56.7)	-
Other movements	(16.4)	16.7	0.3	-
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
Additions	70.1	-	70.1	340.0
Goodwill arising on acquisition of new associates	-	0.2	0.2	-
Share of results of associate undertakings (note 4)	61.9	-	61.9	-
Dividends	(52.2)	-	(52.2)	-
Other movements	9.7	3.9	13.6	10.6
Exchange adjustments	(9.1)	(1.5)	(10.6)	5.9
Disposals	(0.2)	(0.1)	(0.3)	(15.2)
Reclassification to subsidiaries	(56.4)	(47.6)	(104.0)	-
Revaluation of other investments	-	-	-	64.6
Amortisation of other intangible assets	-	(2.8)	(2.8)	-
Goodwill impairment	-	(8.8)	(8.8)	-
Write-downs	-	-	-	(7.3)
31 December 2014	419.2	340.7	759.9	669.2

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 2014 included:

	% owned	Country of incorporation
Asatsu-DK Inc.	24.6	Japan
Barrows Design and Manufacturing (Pty) Limited	35.0	South Africa
Chime Communications Plc ¹	18.9	UK
CVSC Sofres Media Co Limited	40.0	China
Dat Viet VAC Media Corporation	30.0	Vietnam
GIIR Inc.	30.0	Korea
Globant S.A.	20.1	Argentina
Grass Roots Group plc	44.8	UK
Harworth Marketing & Media Company	49.0	USA
High Co SA	34.1	France
IBOPE Latinoamericana, S.A.	41.8	Brazil
Markttest Investimentos SGPS S.A.	40.0	Portugal
Nanjing Yindu Advertising Agency	49.0	China
Singleton, Ogilvy & Mather (Holdings) Pty Limited	33.3	Australia
STW Communications Group Limited	22.2	Australia

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 2014 was as follows: Asatsu-DK Inc: £160.9 million, Chime Communications Plc: £51.3 million, GIIR Inc: £22.4 million, Globant SA: £104.5 million, High Co SA: £13.6 million and STW Communications Group Limited: £40.3 million (2013: 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).

The carrying value (including goodwill and other intangibles) of these equity interests in the Group's consolidated balance sheet at 31 December 2014 was as follows: Asatsu-DK Inc: £140.4 million, Chime Communications Plc: £38.9 million, GIIR Inc: £30.0 million, Globant SA: £57.4 million, High Co SA: £28.9 million, and STW Communications Group Limited: £71.4 million (2013: 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).

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 2014.

	2014 £m	2013 £m	2012 £m
Income statement			
Revenue	2,246.5	2,366.7	2,268.0
Operating profit	280.6	274.8	262.1
Profit before taxation	267.0	261.5	262.8
Profit for the year	183.0	188.8	176.5

	2014 £m	2013 £m	2012 £m
Balance sheet			
Assets	4,380.3	5,027.4	4,956.5
Liabilities	(1,823.9)	(2,411.9)	(2,424.0)
Net assets	2,556.4	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 £42.4 million (2013: £27.3 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 Income taxes. 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.

Our 2014 financial statements

Notes to the consolidated financial statements

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 2014 £m	Offset 2014 £m	As reported 2014 £m	Gross 2013 £m	Offset 2013 £m	As reported 2013 £m
Deferred tax assets	406.8	(167.1)	239.7	224.3	(104.9)	119.4
Deferred tax liabilities	(834.7)	167.1	(667.6)	(755.6)	104.9	(650.7)
	(427.9)	-	(427.9)	(531.3)	-	(531.3)

The following are the major gross deferred tax assets recognised by the Group and movements thereon in 2014 and 2013:

	Deferred compensation £m	Accounting provisions & accruals £m	Retirement benefit obligations £m	Property, plant & equipment £m	Tax losses & credits £m	Share-based payments £m	Restructuring provisions £m	Other temporary differences £m	Total £m
1 January 2013	0.7	39.0	23.7	43.7	43.4	55.9	-	14.8	221.2
Credit/(charge) to income	-	1.7	-	(12.3)	(6.3)	3.0	-	(4.9)	(18.8)
Charge to other comprehensive income	-	-	(1.2)	-	-	-	-	-	(1.2)
Credit to equity	-	-	-	-	-	30.2	-	-	30.2
Exchange differences	0.4	5.1	(3.5)	(0.1)	(3.1)	(2.8)	-	(3.1)	(7.1)
31 December 2013	1.1	45.8	19.0	31.3	34.0	86.3	-	6.8	224.3
Credit/(charge) to income	44.5	9.2	18.0	8.7	12.3	(1.2)	19.3	14.6	125.4
Credit to other comprehensive income	-	-	62.1	-	-	-	-	-	62.1
Charge to equity	-	-	-	-	-	(17.1)	-	-	(17.1)
Exchange differences	(0.1)	(3.5)	7.3	1.4	1.8	3.5	1.1	0.6	12.1
31 December 2014	45.5	51.5	106.4	41.4	48.1	71.5	20.4	22.0	406.8

Other temporary differences comprise a number of items including tax deductible goodwill, none of which is individually significant to the Group's consolidated balance sheet.

Deferred tax assets in relation to deferred compensation, tax losses and credits and accounting provisions & accruals previously reported within other temporary differences have been disclosed separately in 2014 and the 2013 comparatives have been amended to reflect this.

In addition the Group has recognised the following gross deferred tax liabilities and movements thereon in 2014 and 2013:

	Brands and other intangibles £m	Associate earnings £m	Goodwill £m	Property, plant & equipment £m	Financial instruments £m	Other temporary differences £m	Total £m
1 January 2013	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
Acquisition of subsidiaries	36.0	-	-	-	-	-	36.0
(Credit)/charge to income	(44.6)	(1.7)	19.0	(0.7)	47.0	7.5	26.5
Exchange adjustments	2.2	(0.2)	9.2	1.9	2.7	0.8	16.6
31 December 2014	558.2	19.6	163.7	30.8	49.7	12.7	834.7

At the balance sheet date, the Group has gross tax losses and other temporary differences of £4,840.6 million (2013: £5,391.0 million) available for offset against future profits. Deferred tax assets have been recognised in respect of the tax benefit of £1,262.1 million (2013: £710.8 million) of such tax losses and other temporary differences. No deferred tax asset has been recognised in respect of the remaining £3,578.5 million (2013: £4,680.2 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 £52.8 million that will expire by 2024, and £3,260.9 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 £2,240.0 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:

	2014 £m	2013 £m
Work in progress	313.7	288.9
Inventory	13.6	15.6
	327.3	304.5

17. Trade and other receivables

The following are included in trade and other receivables:

Amounts falling due within one year:

	2014 £m	2013 £m
Trade receivables (net of bad debt provision)	6,337.6	5,986.5
VAT and sales taxes recoverable	116.0	82.0
Prepayments	222.1	251.1
Accrued income	2,401.5	2,282.2
Fair value of derivatives	11.4	57.9
Other debtors	441.4	428.4
	9,530.0	9,088.1

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

	Carrying amount at 31 December 2014 £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
2014							
Trade receivables	6,337.6	4,069.0	1,457.3	659.3	120.6	30.8	0.6
Other financial assets	440.3	310.0	75.9	14.4	8.8	13.8	17.4
	6,777.9	4,379.0	1,533.2	673.7	129.4	44.6	18.0
	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

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:

	2014 £m	2013 £m
Prepayments	1.9	3.7
Accrued income	7.0	20.8
Other debtors	97.8	78.7
Fair value of derivatives	41.9	55.3
	148.6	158.5

Movements on bad debt provisions were as follows:

	2014 £m	2013 £m
Balance at beginning of year	92.8	105.3
New acquisitions	3.2	2.1
Charged to operating costs	18.9	26.3
Exchange adjustments	0.3	(1.7)
Utilisations and other movements	(29.9)	(39.2)
Balance at end of year	85.3	92.8

The allowance for bad and doubtful debts is equivalent to 1.3% (2013: 1.5%) of gross trade accounts receivable.

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

Our 2014 financial statements

Notes to the consolidated financial statements

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:

	2014 £m	2013 £m
Trade payables	7,846.3	7,150.2
Other taxation and social security	427.4	415.3
Payments due to vendors (earnout agreements)	67.1	49.7
Liabilities in respect of put option agreements with vendors	27.7	53.5
Deferred income	990.4	917.8
Fair value of derivatives	75.0	41.8
Share purchases – close period commitments	78.8	–
Other creditors and accruals	2,271.3	2,082.4
	11,784.0	10,710.7

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:

	2014 £m	2013 £m
Payments due to vendors (earnout agreements)	244.3	143.8
Liabilities in respect of put option agreements with vendors	157.2	85.6
Fair value of derivatives	2.1	19.9
Other creditors and accruals	221.3	208.3
	624.9	457.6

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:

	2014 £m	2013 £m
Within one year	67.1	49.7
Between one and two years	67.4	26.1
Between two and three years	65.1	44.1
Between three and four years	34.6	54.0
Between four and five years	51.9	12.9
Over five years	25.3	6.7
	311.4	193.5

	2014 £m	2013 £m
At the beginning of the year	193.5	194.0
Earnouts paid (note 11)	(34.3)	(27.7)
New acquisitions	136.0	51.9
Revision of estimates taken to goodwill (note 12)	26.4	(5.7)
Revaluation of payments due to vendors (note 6)	(13.2)	(15.8)
Exchange adjustments	3.0	(3.2)
At the end of the year	311.4	193.5

As of 31 December 2014, 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 £362 million (2013: £nil to £289 million) and £nil to £1,329 million (2013: £nil to £1,042 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 been completed and payments made on active arrangements during the year.

20. Bank overdrafts, bonds and bank loans

Amounts falling due within one year:

	2014 £m	2013 £m
Bank overdrafts	265.1	338.4
Corporate bonds and bank loans	388.1	603.0
	653.2	941.4

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

Amounts falling due after more than one year:

	2014 £m	2013 £m
Corporate bonds and bank loans	4,134.9	3,520.6

The Group estimates that the fair value of corporate bonds is \$4,944.8 million at 31 December 2014 (2013: £4,344.9 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, bank loans and overdrafts included within liabilities fall due for repayment as follows:

	2014 £m	2013 £m
Within one year	653.2	941.4
Between one and two years	581.9	424.2
Between two and three years	413.9	618.5
Between three and four years	–	424.8
Between four and five years	–	–
Over five years	3,139.1	2,053.1
	4,788.1	4,462.0

21. Provisions for liabilities and charges

The movements in 2014 and 2013 were as follows:

	Property £m	Other £m	Total £m
1 January 2013	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
Charged to the income statement	16.4	15.5	31.9
Acquisitions ¹	2.1	7.7	9.8
Utilised	(6.0)	(9.2)	(15.2)
Released to the income statement	(5.4)	(6.7)	(12.1)
Transfers	0.1	0.4	0.5
Exchange adjustments	-	3.8	3.8
31 December 2014	44.5	121.9	166.4

Note

¹ Acquisitions include £0.5 million (2013: £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:

	2014 £m	2013 £m	2012 £m
Share-based payments (note 5)	102.2	105.4	92.8

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

As of 31 December 2014, there was £156.8 million (2013: £167.6 million) of total unrecognised compensation cost related to the Group's restricted stock plans. That cost is expected to be recognised over an average 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 Shareholder 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 and 2010 grants is five shares for each investment share. The 2010 LEAP III plan vested in March 2015 at a match of 5.0 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 performance of 10% average annual ROE and maximum performance of 14%, with a sliding scale 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.

Our 2014 financial statements

Notes to the consolidated financial statements

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 2014 number m	Granted number m	Lapsed number m	Vested number m	Non-vested 31 December 2014 number m
Renewed LEAP/ LEAP III ¹	3.8	3.2	–	(4.0)	3.0
Executive Performance Share Plan (EPSP)	2.5	2.3	–	–	4.8
Performance Share Awards (PSA)	5.2	1.8	(0.2)	(3.6)	3.2
Leaders, Partners and High Potential Group	8.3	2.6	(0.5)	(3.5)	6.9

Weighted average fair value (pence per share):

Renewed LEAP/ LEAP III ¹	749p	611p	–	611p	788p
Executive Performance Share Plan (EPSP)	1,122p	1,265p	–	–	1,189p
Performance Share Awards (PSA)	911p	1,155p	1,069p	792p	1,170p
Leaders, Partners and High Potential Group	891p	1,183p	887p	615p	1,140p

Note

¹ The number of shares granted represents the matched shares awarded on vest date for the 2009 Renewed LEAP plan which vested in February 2014. 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 2014 was £107.2 million (2013: £87.1 million, 2012: £47.5 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:

	2014 £m	2013 £m	2012 £m
Defined contribution plans	129.8	124.4	124.9
Defined benefit plans charge to operating profit	19.1	26.9	23.8
Pension costs (note 5)	148.9	151.3	148.7
Net interest expense on pension plans ¹ (note 6)	8.0	11.4	11.3
	156.9	162.7	160.0

Note

¹ Comparative figures for 2012 have been restated to reflect the requirements of IAS 19.

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 2014.

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 2014 amounted to £68.2 million (2013: £47.8 million, 2012: £56.5 million). Employer contributions and benefit payments in 2015 are expected to be approximately £70 million.

(a) Assumptions

There are a number of areas in pension accounting that involve judgments 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:

	2014 % pa	2013 % pa	2012 % pa	2011 % pa
UK				
Discount rate ¹	3.4	4.5	4.2	4.7
Rate of increase in salaries	3.1	3.6	2.9	3.0
Rate of increase in pensions in payment	3.9	4.2	3.9	4.0
Inflation	2.4	2.9	2.4	2.5
North America				
Discount rate ¹	3.7	4.5	3.5	4.4
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	2.1	3.7	3.6	4.8
Rate of increase in salaries	2.2	2.4	2.4	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	4.2	4.4	4.1	4.8
Rate of increase in salaries	6.1	5.9	6.1	5.7
Inflation	3.9	4.5	4.7	4.8

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 2014, 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	23.1	23.1	24.2	20.8	19.3
- current pensioners (at age 65) - female	24.9	24.8	25.5	23.7	24.7
- future pensioners (current age 45) - male	25.0	24.7	26.3	23.2	19.3
- future pensioners (current age 45) - female	26.8	26.4	27.8	26.0	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 2013 were 21.9 years and 23.9 years for male and female current pensioners (at age 65) respectively, and 24.1 years and 25.9 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)	12.9	9.4	14.1	18.7	8.9
Expected benefit payments over the next 10 years (£m)					
Benefits expected to be paid within 12 months	100.6	74.3	16.0	8.6	1.7
Benefits expected to be paid in 2016	54.3	28.6	16.8	7.1	1.8
Benefits expected to be paid in 2017	53.9	27.6	17.0	7.3	2.0
Benefits expected to be paid in 2018	54.7	27.4	17.6	7.8	1.9
Benefits expected to be paid in 2019	58.0	28.0	17.9	9.1	3.0
Benefits expected to be paid in the next five years	302.0	148.0	97.3	44.0	12.7

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.

Our 2014 financial statements

Notes to the consolidated financial statements

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.

Sensitivity analysis of significant actuarial assumptions	Increase/(decrease) in benefit obligation	
	2014 £m	2013 £m
Discount rate		
Increase by 25 basis points		
UK	(12.8)	(10.8)
North America	(10.8)	(9.9)
Western Continental Europe	(10.3)	(7.1)
Other ¹	(0.6)	(0.5)
Decrease by 25 basis points		
UK	13.6	11.5
North America	11.0	10.1
Western Continental Europe	11.2	7.5
Other ¹	0.5	0.4
Rate of increase in salaries		
Increase by 25 basis points		
UK	0.2	0.2
North America	0.1	-
Western Continental Europe	1.6	1.1
Other ¹	0.5	0.4
Decrease by 25 basis points		
UK	(0.2)	(0.1)
North America	(0.1)	(0.1)
Western Continental Europe	(1.5)	(1.1)
Other ¹	(0.6)	(0.5)
Rate of increase in pensions in payment		
Increase by 25 basis points		
UK	2.9	2.2
Western Continental Europe	7.5	4.9
Decrease by 25 basis points		
UK	(2.3)	(2.1)
Western Continental Europe	(6.9)	(4.7)
Life expectancy		
Increase in longevity by one additional year		
UK	14.4	11.5
North America	5.4	4.5
Western Continental Europe	7.3	3.8
Other ¹	-	-

Note

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

(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:

	2014		2013		2012	
	£m	%	£m	%	£m	%
Equities	151.1	17.8	147.7	20.3	145.0	20.4
Bonds	496.2	58.4	405.8	55.9	282.3	39.8
Insured annuities	68.0	8.0	68.7	9.5	74.5	10.5
Property	1.4	0.2	1.0	0.1	0.8	0.1
Cash ¹	52.2	6.1	37.0	5.1	150.9	21.3
Other ¹	80.6	9.5	66.0	9.1	56.3	7.9
Total fair value of assets	849.5	100.0	726.2	100.0	709.8	100.0
Present value of liabilities	(1,144.8)		(972.8)		(1,044.1)	
Deficit in the plans	(295.3)		(246.6)		(334.3)	
Irrecoverable surplus	(0.9)		(0.9)		(1.0)	
Unrecognised past service cost ²	-		-		(0.3)	
Net liability ³	(296.2)		(247.5)		(335.6)	
Plans in surplus	17.2		17.7		1.5	
Plans in deficit	(313.4)		(265.2)		(337.1)	

Notes

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

² In accordance with IAS 19, past service costs are recognised immediately in the income statement when the related plan amendment occurs. 2012 has 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.

	2014 £m	2013 £m	2012 £m
Surplus/(deficit) in plans by region			
UK	11.4	11.3	(9.4)
North America	(150.1)	(136.7)	(193.8)
Western Continental Europe	(126.2)	(96.0)	(100.0)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(30.4)	(25.2)	(31.1)
Deficit in the plans	(295.3)	(246.6)	(334.3)

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 between funded and unfunded pension plans.

	2014 Surplus/ (deficit) £m	2014 Present value of liabilities £m	2013 Surplus/ (deficit) £m	2013 Present value of liabilities £m	2012 Deficit £m	2012 Present value of liabilities £m
Funded plans by region						
UK	11.4	(385.8)	11.3	(346.4)	(9.4)	(366.6)
North America	(70.6)	(402.5)	(68.8)	(334.2)	(115.6)	(375.0)
Western Continental Europe	(67.8)	(178.4)	(41.6)	(135.4)	(45.5)	(129.1)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(5.4)	(15.2)	(5.0)	(14.3)	(5.1)	(14.7)
Deficit/liabilities in the funded plans	(132.4)	(981.9)	(104.1)	(830.3)	(175.6)	(885.4)
Unfunded plans by region						
UK	-	-	-	-	-	-
North America	(79.5)	(79.5)	(67.9)	(67.9)	(78.2)	(78.2)
Western Continental Europe	(58.4)	(58.4)	(54.4)	(54.4)	(54.5)	(54.5)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(25.0)	(25.0)	(20.2)	(20.2)	(26.0)	(26.0)
Deficit/liabilities in the unfunded plans	(162.9)	(162.9)	(142.5)	(142.5)	(158.7)	(158.7)
Deficit/liabilities in the plans	(295.3)	(1,144.8)	(246.6)	(972.8)	(334.3)	(1,044.1)

In accordance with IAS 19, 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):

	2014 £m	2013 £m	2012 £m
Service cost ¹	17.3	24.8	23.8
Administrative expenses ²	1.8	2.1	-
Charge to operating profit	19.1	26.9	23.8
Net interest expense on pension plans ³	8.0	11.4	11.3
Charge to profit before taxation for defined benefit plans	27.1	38.3	35.1
Return on plan assets (excluding interest income) ^{2,4}	68.9	3.2	40.1
Changes in demographic assumptions underlying the present value of the plan liabilities	(12.3)	13.5	(26.0)
Changes in financial assumptions underlying the present value of the plan liabilities	(141.4)	58.9	(96.5)
Experience (loss)/gain arising on the plan liabilities	(1.8)	0.4	(1.6)
Change in irrecoverable surplus	-	0.2	0.1
Actuarial (loss)/gain recognised in OCI	(86.6)	76.2	(83.9)

Notes

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

² In accordance with IAS 19, administrative expenses are included in operating expenses. Administrative expenses of £2.3 million in 2012 were included as a reduction in expected return on plan assets. 2012 has 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 2012 have been replaced with a net interest amount. Presentation of 2012 comparative figures has been revised to reflect these requirements.

⁴ Gain on pension plan assets relative to expected return for 2012.

Our 2014 financial statements

Notes to the consolidated financial statements

(d) Movement in plan liabilities

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

	2014 £m	2013 £m	2012 £m
Plan liabilities at beginning of year	972.8	1,044.1	934.5
Service cost ¹	17.3	24.8	23.8
Interest cost	40.7	39.7	41.3
Actuarial loss/(gain)			
Effect of changes in demographic assumptions	12.3	(13.5)	26.0
Effect of changes in financial assumptions	141.4	(58.9)	96.5
Effect of experience adjustments	1.8	(0.4)	1.6
Benefits paid	(57.7)	(54.5)	(56.9)
Loss/(gain) due to exchange rate movements	14.8	(5.0)	(25.3)
Settlement payments	-	(2.9)	(1.7)
Other ²	1.4	(0.6)	4.3
Plan liabilities at end of year	1,144.8	972.8	1,044.1

Notes

¹ Includes current service cost, past service costs related to plan amendments and (gain)/loss on settlements and curtailments. In the 2012 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:

	2014 £m	2013 £m	2012 £m
Fair value of plan assets at beginning of year	726.2	709.8	653.7
Interest income on plan assets ¹	32.7	28.3	30.0
Return on plan assets (excluding interest income) ^{2,3}	68.9	3.2	40.1
Employer contributions	68.2	47.8	56.5
Benefits paid	(57.7)	(54.5)	(56.9)
Gain/(loss) due to exchange rate movements	12.6	(4.8)	(13.9)
Settlement payments	-	(2.9)	(1.9)
Administrative expenses ³	(1.8)	(2.1)	-
Other ⁴	0.4	1.4	2.2
Fair value of plan assets at end of year	849.5	726.2	709.8
Actual return on plan assets	101.6	31.5	70.1

Notes

¹ Expected return for 2012.

² Gain on pension plan assets relative to expected return for 2012.

³ In accordance with IAS 19, administrative expenses are included in operating expenses. Administrative expenses of £2.3 million in 2012 were included as a reduction in expected return on plan assets. 2012 has 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.

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 Group's debt is therefore denominated in US dollars, pounds sterling and euros. The Group's borrowings at 31 December 2014 were made up of \$3,584 million, £600 million and €2,252 million. The Group's average gross debt during the course of 2014 was \$3,936 million, £615 million and €1,724 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 arising from its operations. 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, 67.3% of the year-end US dollar debt is at fixed rates averaging 4.56% for an average period of 234 months; 66.7% of the sterling debt is at a fixed rate of 6.19% for an average period of 58 months; and 99.9% of the euro debt is at fixed rates averaging 3.96% for an average period of 89 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 2014 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 2014, the Group has access to £6.2 billion of committed facilities with maturity dates spread over the years 2015 to 2043 as illustrated below:

	£m	2015 £m	2016 £m	2017 £m	2018+ £m
US bond \$500m (5.625% '43)	320.9				320.9
US bond \$300m (5.125% '42)	192.5				192.5
Eurobonds €750m (2.25% '26)	582.6				582.6
US bond \$750m (3.75% '24)	481.4				481.4
Eurobonds €750m (3.0% '23)	582.6				582.6
US bond \$500m (3.625% '22)	320.9				320.9
US bond \$812m (4.75% '21)	521.4				521.4
£ bonds £200m (6.375% '20)	200.0				200.0
Bank revolver (\$2,500m)	1,604.5				1,604.5
£ bonds £400m (6.0% '17)	400.0			400.0	
Eurobonds €750m (6.625% '16)	582.6		582.6		
Eurobonds €500m (5.25% '15)	388.4	388.4			
Total committed facilities available	6,177.8	388.4	582.6	400.0	4,806.8
Drawn down facilities at 31 December 2014	4,573.3	388.4	582.6	400.0	3,202.3
Undrawn committed credit facilities	1,604.5				
Drawn down facilities at 31 December 2014	4,573.3				
Net cash at 31 December 2014	(2,247.6)				
Other adjustments	(50.3)				
Net debt at 31 December 2014	2,275.4				

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 6% of total trade receivables as at 31 December 2014.

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.

Our 2014 financial statements

Notes to the consolidated financial statements

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.

	2014	2013
	£m	£m
US dollar	51.5	61.2
Euro	21.7	44.4

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 2014 would increase profit before tax by approximately £14.2 million (2013: £13.7 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 2014, the fair value of the Group's currency derivatives is estimated to be a net liability of approximately £72.7 million (2013: £7.4 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £nil (2013: £50.6 million) assets included in trade and other receivables and £72.7 million (2013: £58.0 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 charge of £26.4 million (2013: credit of £56.1 million) for net investment hedges and a charge of £60.6 million (2013: £32.1 million) for cash flow hedges.

Changes in the fair value relating to the ineffective portion of the currency derivatives amounted to a gain of £23.0 million (2013: gain of £12.9 million, 2012: loss of £9.4 million) which is included in the revaluation of financial instruments for the year. This gain resulted from a £64.1 million loss on hedging instruments and a £87.1 million gain 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 £197.2 million (2013: £52.5 million). The Group estimates the fair value of these contracts to be a net liability of £0.1 million (2013: net asset of £1.2 million).

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

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% until January 2015 and have floating interest payments averaging EURIBOR plus 0.80%. Contracts with a nominal value of \$812 million have fixed interest receipts of 4.75% until November 2021 and have floating rate payments averaging LIBOR plus 2.34%. 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 0.65%.

The fair value of interest rate swaps entered into at 31 December 2014 is estimated to be a net asset of approximately £49.0 million (2013: £57.7 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £51.1 million (2013: £61.2 million) assets included in trade and other receivables and £2.1 million (2013: £3.5 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 gain of £5.3 million (2013: loss of £2.4 million, 2012: gain of £0.6 million) which is included in the revaluation of financial instruments for the year. This gain resulted from a £8.7 million loss on hedging instruments and a £14.0 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
2014						
Other investments	-	-	-	669.2	-	669.2
Cash and short-term deposits	-	-	2,512.7	-	-	2,512.7
Bank overdrafts and loans	-	-	-	-	(653.2)	(653.2)
Bonds and bank loans	-	-	-	-	(4,134.9)	(4,134.9)
Trade and other receivables: amounts falling due within one year	-	-	6,706.6	-	-	6,706.6
Trade and other receivables: amounts falling due after more than one year	-	-	71.3	-	-	71.3
Trade and other payables: amounts falling due within one year	-	-	-	-	(7,886.5)	(7,886.5)
Trade and other payables: amounts falling due after more than one year	-	-	-	-	(5.4)	(5.4)
Derivative assets	51.1	2.2	-	-	-	53.3
Derivative liabilities	(74.8)	(2.3)	-	-	-	(77.1)
Share purchases – close period commitments	-	(78.8)	-	-	-	(78.8)
Payments due to vendors (earnout agreements) (note 19)	-	(311.4)	-	-	-	(311.4)
Liabilities in respect of put options	-	(184.9)	-	-	-	(184.9)
	(23.7)	(575.2)	9,290.6	669.2	(12,680.0)	(3,319.1)

	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) (note 19)	-	(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)

Our 2014 financial statements

Notes to the consolidated financial statements

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
2014			
Derivatives in designated hedge relationships			
Derivative assets	–	51.1	–
Derivative liabilities	–	(74.8)	–
Held for trading			
Derivative assets	–	2.2	–
Derivative liabilities	–	(2.3)	–
Share purchases – close period commitments	(78.8)	–	–
Payments due to vendors (earnout agreements) (note 19)	–	–	(311.4)
Liabilities in respect of put options	–	–	(184.9)
Available for sale			
Other investments	134.8	–	534.4

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

Reconciliation of level 3 fair value measurements¹:

	Liabilities in respect of put options £m	Other investments £m
1 January 2013	(144.3)	176.5
Losses recognised in the income statement	(1.1)	–
Gain recognised in other comprehensive income	–	72.0
Exchange adjustments	8.9	(1.4)
Additions	(12.9)	5.5
Disposals	–	(5.0)
Settlements	10.3	–
31 December 2013	(139.1)	247.6
Losses recognised in the income statement	(8.8)	(7.3)
Gain recognised in other comprehensive income	–	96.5
Exchange adjustments	6.5	4.3
Additions	(46.0)	206.6
Disposals	–	(10.7)
Reclassification to subsidiaries	–	(2.6)
Settlements	2.5	–
31 December 2014	(184.9)	534.4

Note

¹ The reconciliation of payments due to vendors (earnout agreements) is presented in note 19.

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 options are recorded at fair value, which is the present value of the expected cash outflows of the obligations. Both types of obligations are dependent on the future financial performance of the entity and it is assumed that future profits are in line with directors' estimates. The directors derive their estimates from internal business plans together with financial due diligence performed in connection with the acquisition. At 31 December 2014, the weighted average growth rate in estimating future financial performance was 19.8% (2013: 18.7%), which reflects the prevalence of recent acquisitions in the faster-growing markets and new media sectors. The risk adjusted discount rate applied to these obligations at 31 December 2014 was 2.0% (2013: 2.3%).

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 £6.6 million (2013: £5.1 million) and £11.7 million (2013: £4.5 million), respectively. A 0.5 percentage point increase or decrease in the risk adjusted discount rate would decrease or increase the combined liabilities by approximately £6.5 million (2013: £4.5 million) and £6.7 million (2013: £4.6 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.

26. Authorised and issued share capital

	Equity ordinary shares	Nominal value £m
Authorised		
At 1 January 2014 – WPP plc	1,750,000,000	175.0
At 31 December 2014 – WPP plc	1,750,000,000	175.0
Issued and fully paid		
At 1 January 2014	1,348,733,317	134.9
Exercise of share options	3,914,407	0.4
Treasury share cancellations	(26,900,000)	(2.7)
At 31 December 2014	1,325,747,724	132.6

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 123 to 157.

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 2014 was 17,861,766 (2013: 24,048,113), and £240.2 million (2013: £331.9 million) respectively. The number and market value of ordinary shares held in treasury at 31 December 2014 was 7,526,560 (2013: 1,370,700) and £101.2 million (2013: £18.9 million) respectively.

Share options

WPP Executive Share Option Scheme

As at 31 December 2014, unexercised options over ordinary shares of 55,343 and unexercised options over ADRs of 11,855 have been granted under the WPP Executive Share Option Scheme as follows:

	Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
	11,423	5.775	2009-2015
	988	5.818	2008-2015
	6,402	5.903	2011-2018
	12,581	6.718	2009-2016
	12,447	7.378	2014-2021
	4,761	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
	887	50.670	2008-2015
	8,981	58.460	2009-2016
	844	59.170	2011-2018
	156	63.900	2009-2020
	987	75.940	2010-2017

Our 2014 financial statements

Notes to the consolidated financial statements

WPP Worldwide Share Ownership Program

As at 31 December 2014, unexercised options over ordinary shares of 11,605,382 and unexercised options over ADRs of 1,329,795 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
6,500	4.819	2011-2018
3,375	5.483	2012-2016
154,800	5.483	2012-2019
875	5.483	2012-2020
65,000	5.483	2013-2019
9,250	5.608	2012-2019
125	5.775	2008-2015
5,100	5.913	2011-2018
4,500	5.917	2011-2018
92,600	6.028	2011-2018
5,900	6.195	2008-2015
32,750	6.268	2014-2018
726,748	6.268	2014-2021
253,552	6.268	2015-2021
250	6.668	2009-2017
2,750	6.740	2009-2016
46,525	6.938	2009-2016
4,200	7.005	2010-2017
3,375	7.113	2013-2017
366,775	7.113	2013-2020
190,867	7.113	2014-2020
8,250	7.478	2011-2017
12,850	7.543	2014-2020
75,675	7.718	2010-2017
2,553,257	8.458	2015-2022
127,500	13.145	2017-2021
3,661,025	13.145	2017-2024
45,625	13.145	2018-2024
3,042,133	13.505	2016-2023
103,250	13.505	2017-2023

Number of ADRs under option	Exercise price per ADR (\$)	Exercise dates
44,210	44.560	2012-2019
130,120	49.230	2014-2021
69,995	56.560	2013-2020
30,785	59.500	2011-2018
3,565	59.520	2008-2015
15,285	60.690	2009-2016
262,690	67.490	2015-2022
26,095	75.760	2010-2017
419,565	102.670	2017-2024
327,485	110.760	2016-2023

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

As at 31 December 2014, unexercised options over ADRs of 12,540 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
79	23.180	2007-2015
787	27.500	2007-2015
9,258	40.650	2007-2015
115	49.600	2007-2016
78	52.590	2008-2017
157	53.480	2008-2017
157	54.240	2007-2016
314	55.260	2007-2016
74	55.640	2007-2016
157	56.270	2007-2016
574	56.720	2007-2016
157	58.940	2007-2017
393	60.020	2007-2016
108	61.920	2007-2016
54	64.650	2007-2016
78	65.540	2007-2016

Taylor Nelson Sofres Plc 1999 Worldwide Employee Sharesave Plan

As at 31 December 2014, unexercised options over ordinary shares of 56,854 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
56,854	1.730	2013-2015

The aggregate status of the WPP Share Option Plans during 2014 was as follows:

Movements on options granted (represented in ordinary shares)

	1 January 2014	Granted	Exercised	Lapsed	Outstanding Exercisable	
					December 2014	December 2014
WPP	807,366	-	(663,144)	(29,604)	114,618	107,877
WWOP	18,205,704	6,029,750	(3,179,415)	(2,801,682)	18,254,357	2,040,090
24/7	115,390	-	(49,500)	(3,190)	62,700	62,700
TNS	81,138	-	(22,348)	(1,936)	56,854	56,854
	19,209,598	6,029,750	(3,914,407)	(2,836,412)	18,488,529	2,267,521

Weighted-average exercise price for options over

	1 January 2014	Granted	Exercised	Lapsed	Outstanding December 2014	Exercisable 31 December 2014
Ordinary shares (£)						
WPP	5.801	–	5.593	5.535	6.969	6.638
WWOP	9.378	13.145	6.447	10.208	11.020	6.503
TNS	1.796	–	1.968	1.730	1.730	1.730
ADRs (\$)						
WPP	52.250	–	51.156	50.816	59.455	59.455
WWOP	74.990	102.670	54.670	83.777	85.999	44.560
24/7	40.480	–	38.389	26.071	42.865	42.865

Options over ordinary shares

Outstanding	Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
	1.730 – 13.505	10.956	102

Options over ADRs

Outstanding	Range of exercise prices \$	Weighted average exercise price \$	Weighted average contractual life Months
	23.18 – 110.76	85.367	98

As at 31 December 2014 there was £10.5 million (2013: £9.9 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 (2013: 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:

	2014	2013	2012
Fair value of UK options (shares)	155.0p	160.0p	135.3p
Fair value of US options (ADRs)	\$12.23	\$12.92	\$10.90
Weighted average assumptions:			
UK Risk-free interest rate	1.12%	1.20%	0.56%
US Risk-free interest rate	1.28%	0.95%	0.51%
Expected life (months)	48	48	48
Expected volatility	20%	20%	27%
Dividend yield	2.8%	2.8%	2.8%

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 2014 was £12.65 (2013: £11.63, 2012: £8.17) and the weighted average ADR price for the same period was \$104.21 (2013: \$91.22, 2012: \$64.90).

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 Group is tabling a new plan for Share owner approval at the AGM which will be used to grant awards under this program in the future.

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 Shareholder 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.

Our 2014 financial statements

Notes to the consolidated financial statements

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 2013	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
Exchange adjustments on foreign currency net investments	-	-	-	(224.3)	(224.3)
Gain on revaluation of available for sale investments	-	-	64.6	-	64.6
Recognition and remeasurement of financial instruments	-	(44.1)	-	-	(44.1)
Treasury share cancellations	2.7	-	-	-	2.7
Share purchases – close period commitments	-	(80.0)	-	-	(80.0)
31 December 2014	2.7	(246.2)	158.4	121.3	36.2

28. Acquisitions

The Group accounts for acquisitions in accordance with IFRS 3 Business Combinations. IFRS 3 requires the acquirer'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	2.7	136.3	139.0
Property, plant and equipment	20.6	-	20.6
Cash	74.4	-	74.4
Trade receivables due within one year	197.3	(4.0)	193.3
Other current assets	189.4	-	189.4
Total assets	484.4	132.3	616.7
Current liabilities	(352.6)	(3.0)	(355.6)
Trade and other payables due after one year	(16.9)	(31.8)	(48.7)
Deferred tax liabilities	-	(35.5)	(35.5)
Provisions	(5.1)	(4.2)	(9.3)
Total liabilities	(374.6)	(74.5)	(449.1)
Net assets	109.8	57.8	167.6
Non-controlling interests			(37.5)
Fair value of equity stake in associate undertakings before acquisition of controlling interest			(102.2)
Goodwill			485.2
Consideration			513.1
Consideration satisfied by:			
Cash			378.6
Payments due to vendors			134.5

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 £46.3 million.

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 2014 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 LLC	US
J. Walter Thompson Company LLC	US
GroupM Worldwide LLC	US
The Ogilvy Group LLC	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:

	2014 £m	2013 £m	2012 £m
Profit before interest and taxation	1,569.2	1,478.4	1,310.5
Amortisation and impairment of acquired intangible assets	147.5	179.8	171.9
Goodwill impairment	16.9	23.3	32.0
Gains on disposal of investments and subsidiaries	(186.3)	(6.0)	(26.8)
Gains on remeasurement of equity on acquisition of controlling interest	(9.2)	(30.0)	(5.3)
Investment write-downs	7.3	0.4	19.6
Cost of changes to corporate structure	-	-	4.1
Gain on sale of freehold property in New York	-	-	(71.4)
Restructuring costs	127.6	5.0	93.4
Share of exceptional losses of associates	7.6	10.7	3.0
Headline PBIT	1,680.6	1,661.6	1,531.0
Finance income	94.7	64.3	55.9
Finance costs	(262.7)	(267.9)	(269.8)
	(168.0)	(203.6)	(213.9)
Interest cover on headline PBIT	10.0	8.2	7.2
	times	times	times

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

	2014 £m	2013 £m	2012 £m
Profit before taxation	1,451.9	1,295.8	1,091.9
Amortisation and impairment of acquired intangible assets	147.5	179.8	171.9
Goodwill impairment	16.9	23.3	32.0
Gains on disposal of investments and subsidiaries	(186.3)	(6.0)	(26.8)
Gains on remeasurement of equity on acquisition of controlling interest	(9.2)	(30.0)	(5.3)
Investment write-downs	7.3	0.4	19.6
Cost of changes to corporate structure	-	-	4.1
Gain on sale of freehold property in New York	-	-	(71.4)
Restructuring costs	127.6	5.0	93.4
Share of exceptional losses of associates	7.6	10.7	3.0
Revaluation of financial instruments	(50.7)	(21.0)	4.7
Headline PBT	1,512.6	1,458.0	1,317.1
Headline tax charge	(302.5)	(294.3)	(278.9)
Non-controlling interests	(74.3)	(75.6)	(72.0)
Headline earnings	1,135.8	1,088.1	966.2
Ordinary dividends paid	460.0	397.3	322.2
	2.5	2.7	3.0
Dividend cover on headline earnings	times	times	times

Calculation of headline EBITDA:

	2014 £m	2013 £m	2012 £m
Headline PBIT (as above)	1,680.6	1,661.6	1,531.0
Depreciation of property, plant and equipment	197.3	202.0	191.0
Amortisation of other intangible assets	31.6	32.7	33.7
Headline EBITDA	1,909.5	1,896.3	1,755.7

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

	Margin %	2014 £m	Margin %	2013 £m	Margin %	2012 £m
Net sales		10,064.8		10,076.1		9,514.8
Headline PBIT	16.7%	1,680.6	16.5%	1,661.6	16.1%	1,531.0
Share of results of associates (excluding exceptional gains/losses)		(69.5)		(78.8)		(72.4)
Headline operating profit	16.0%	1,611.1	15.7%	1,582.8	15.3%	1,458.6

Our 2014 financial statements

Notes to the consolidated financial statements

Headline diluted earnings per ordinary share:

	2014	2013	2012
Headline earnings (£m)	1,135.8	1,088.1	966.2
Earnings adjustment:			
Dilutive effect of convertible bonds (£m)	-	10.6	26.1
Diluted headline earnings (£m)	1,135.8	1,098.7	992.3
Weighted average number of ordinary shares (m)	1,337.5	1,360.3	1,352.6
Headline diluted earnings per ordinary share	84.9p	80.8p	73.4p

Reconciliation of free cash flow:

	2014 £m	2013 £m	2012 £m
Cash generated by operations	2,108.8	1,784.1	1,291.1
Plus:			
Interest received	69.8	51.3	56.6
Investment income	11.9	10.1	1.2
Dividends from associates	52.2	56.7	44.7
Share option proceeds	25.0	42.4	56.0
Proceeds on disposal of property, plant and equipment	5.9	7.3	123.5
Movement in working capital and provisions	(295.0)	133.4	388.2
Less:			
Interest and similar charges paid	(249.1)	(254.7)	(228.3)
Purchases of property, plant and equipment	(177.9)	(240.7)	(290.3)
Purchases of other intangible assets (including capitalised computer software)	(36.5)	(43.8)	(39.8)
Corporation and overseas tax paid	(289.9)	(273.3)	(257.0)
Dividends paid to non-controlling interests in subsidiary undertakings	(57.7)	(53.2)	(51.9)
Free cash flow	1,167.5	1,219.6	1,094.0

