FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The consolidated financial statements of WPP plc and its subsidiaries (the Group) for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2018.

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

BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

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

NEW IFRS ACCOUNTING PRONOUNCEMENTS

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

- IFRS 16 Leases; and
- IFRIC 23 Uncertainty over Income Tax Treatments.

IFRS 16 is effective from 1 January 2019. The standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model. Lessees will be required to recognise a right-of-use asset and related lease liability for the majority of their operating leases and show depreciation of leased assets and interest on lease liabilities separately in the income statement. IFRS 16 will require the Group to recognise substantially all of its operating leases on the balance sheet.

The Group will adopt IFRS 16 effective 1 January 2019 on a modified retrospective basis and apply the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to retained earnings. Accordingly, prior year financial information will not be restated and will continue to be reported under IAS 17 Leases. The right-of-use asset and lease liability will initially be measured at the present value of the remaining lease payments, with the right-of-use asset being subject to certain adjustments. The estimated right-of-use asset and lease liability recorded on the balance sheet as of 1 January 2019 will be approximately £2.0 billion to £2.5 billion. Depreciation of the right-of-use asset and recognition of interest on the lease liability in the income statement will replace amounts recognised as rent expense under IAS 17, resulting in an estimated increase to operating margin of approximately 0.4 to 0.6 margin points and an estimated decrease to diluted earnings per share of approximately 1.3p to 1.6p.

IFRIC 23 is effective from 1 January 2019. The Group does not consider that this Standard will have a significant impact on the financial statements of the Group.

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

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

IMPACT OF THE ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018 which resulted in the movements in fair value of certain equity investments previously designated as 'available-for-sale' being designated as fair value through other comprehensive income or fair value through profit or loss. The cumulative movements in fair value taken to equity up to 31 December 2017 for these investments have been transferred from other reserves to retained earnings, resulting in an increase in retained earnings of £407.4 million and a corresponding decrease in other reserves.

Amounts classified as loans and receivables under IAS 39 Financial Instruments: Recognition and Measurement have been reclassified to amortised cost under IFRS 9. Further details on reclassification are set out in note 24.

The requirement under IFRS 9 to use an expected loss method of impairment of financial assets did not have a material effect on the Group due to the short-term nature of the Group's trade and other receivables, which are mainly due from large national or multinational companies.

The Group continues to apply the hedge accounting requirements of IAS 39, as permitted by IFRS 9.

Comparatives have not been restated in accordance with the transitional guidance in IFRS 9 and the cumulative impact of adopting the standard on reserves at 1 January 2018 is shown in the consolidated statement of changes in equity.

IMPACT OF THE ADOPTION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in certain aspects of our accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for each prior year presented in the consolidated financial statements.

The new standard establishes a five-step model where consideration received or expected to be received is recognised as revenue when contractual performance obligations are satisfied by transferring control of the relevant goods or services to the customer. Adopting IFRS 15 did not have a significant impact on the timing of the Group's revenue recognition nor on the Group's equity.

However, for certain of our contracts, the adoption of IFRS 15 resulted in a change in our accounting for certain third-party costs. Third-party costs are included in revenue when the Group acts as principal with respect to the services provided to the client and are excluded when the Group acts as agent. Under IFRS 15, the principal versus agent assessment is based on whether the Group controls the relevant services before they are transferred to the client. As a result of the adoption of IFRS 15, there was an increase in third-party costs included in revenue and costs of services. This change increased revenue and costs of services by the same amount and therefore had no impact on gross profit or operating profit.

The following table summarises the impact of adopting IFRS 15 on the Group's consolidated income statement for the years ended 31 December 2017 and 2016.

	Year ended 31 December 2017			Year ended 31 December 2016		
£ million	As previously reported	IFRS 15 adjustments	As restated	As previously reported	IFRS 15 adjustments	As restated
Revenue	15,265.4	538.8	15,804.2	14,388.9	498.4	14,887.3
Costs of services	(12,090.2)	(538.8)	(12,629.0)	(11,348.1)	(498.4)	(11,846.5)
Gross profit	3,175.2	–	3,175.2	3,040.8	–	3,040.8
Revenue less pass-through costs	13,139.6	30.0	13,169.6	12,397.8	30.8	12,428.6

Work in progress includes outlays incurred on behalf of clients, including production costs, and other third-party costs that have not yet been billed and are considered receivables under IFRS 15. As such, £401.1 million of 'Work in progress' has been reclassified as 'Trade and other receivables' as of 31 December 2017. Other than this reclassification, the impact of the adoption of IFRS 15 on the consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and earnings per share was immaterial.

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

Certain corporate brands of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and the Group's commitment to develop and enhance their value. The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required.

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

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

CONTINGENT CONSIDERATION

Contingent consideration is accounted for in accordance with IFRS 3 Business Combinations. Contingent consideration only applies to situations where contingent payments are not dependent on future employment of vendors and any such payments are expensed when they relate to future employment.

Future anticipated payments to vendors in respect of contingent consideration (earnout agreements) are initially recorded at fair value which is the present value of the expected cash outflows of the obligations. The obligations are dependent on the future financial performance of the interests acquired (typically over a four- to five-year period following the year of acquisition) and assume the operating companies improve profits in line with Directors' estimates. The Directors derive their estimates from internal business plans together with financial due diligence performed in connection with the acquisition.

Subsequent adjustments to the fair value are recorded in the consolidated income statement within revaluation of financial instruments.

PROPERTY, PLANT AND EQUIPMENT

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

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

INTERESTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

OTHER INVESTMENTS

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018 which resulted in the movements in fair value of certain equity investments previously designated as 'available-for-sale' being designated as fair value through other comprehensive income or fair value through profit or loss. Further details on reclassifications are set out in note 24. Movements in fair value through profit or loss are recorded in the consolidated income statement within revaluation of financial instruments.

ACCRUED AND DEFERRED INCOME

Accrued income is a contract asset and is recognised when a performance obligation has been satisfied but has not yet been billed. Contract assets are transferred to receivables when the right to consideration is unconditional and billed per the terms of the contractual agreement.

In certain cases, payments are received from customers prior to satisfaction of performance obligations and recognised as deferred income. These balances are considered contract liabilities and are typically related to prepayments for third party expenses that are incurred shortly after billing.

TRADE RECEIVABLES AND WORK IN PROGRESS

Trade receivables are stated net of provisions for bad and doubtful debts. The Group has adopted IFRS 9 Financial Instruments from 1 January 2018 which requires an expected loss method of impairment of financial assets to be used. The implementation of this did not have a material impact on the Group.

The Group has applied the simplified approach to measuring expected credit losses, as permitted by IFRS 9. Therefore the Group does not track changes in credit risk, but recognises a loss allowance based on the financial asset's lifetime expected credit loss. The Group measures expected credit losses based on the ageing of the receivable, based on the Group's historical experience and informed credit assessment. The Group considers a loss allowance to be required for 50% of all invoices aged 180 days to 1 year and 100% of all invoices aged over 1 year, with adjustments where there is specific information to indicate that recoverability of the balance is likely. Further credit losses are recognised where the Group has information that indicates it is unlikely to recover balances in full.

Further details on provisions for bad and doubtful debts are provided in note 16.

Work in progress includes outlays incurred on behalf of clients, including production costs, and other third-party costs that have not yet been billed and are considered receivables under IFRS 15 Revenue from Contracts with Customers.

FOREIGN CURRENCY AND INTEREST RATE HEDGING

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

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

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

Note 24 contains details of the fair values of the derivative instruments used for hedging purposes.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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

LIABILITIES IN RESPECT OF OPTION AGREEMENTS

Option agreements that allow the Group's equity partners to require the Group to purchase a non-controlling interest are treated as derivatives over equity instruments and are recorded in the consolidated balance sheet initially at the present value of the redemption amount in accordance with IAS 32 Financial Instruments: Presentation and subsequently measured at fair value in accordance with IFRS 9 Financial Instruments. The movement in the fair value is recognised as income or expense within revaluation of financial instruments in the consolidated income statement.

DERECOGNITION OF FINANCIAL LIABILITIES

In accordance with IFRS 9 Financial Instruments, a financial liability of the Group is only released to the consolidated income statement when the underlying legal obligation is extinguished.

DEBT

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

BORROWING COSTS

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

REVENUE RECOGNITION

The Group is a leading worldwide creative transformation organisation offering national and multinational clients a comprehensive range of communications, experience, commerce and technology services. Contracts often involve multiple agencies offering different services in different countries. As such, the terms of local, regional and global contracts can vary to meet client needs and regulatory requirements. Consistent with the industry, contracts are typically short-term in nature and tend to be cancellable by either party with 90 days notice. The Group is generally entitled to payment for work performed to date.

The Group is generally paid in arrears for its services. Invoices are typically payable within 30 to 60 days. Revenue comprises commissions and fees earned in respect of amounts billed and is stated exclusive of VAT, sales taxes and trade discounts. Pass-through costs comprise fees paid to external suppliers when they are engaged to perform part or all of a specific project and are charged directly to clients, predominantly media and data collection costs. Costs to obtain a contract are typically expensed as incurred as the contracts are generally short-term in nature.

In most instances, promised services in a contract are not considered distinct or represent a series of services that are substantially the same with the same pattern of transfer to the customer and, as such, are accounted for as a single performance obligation. However, where there are contracts with services that are capable of being distinct, are distinct within the context of the contract, and are accounted for as separate performance obligations, revenue is allocated to each of the performance obligations based on relative standalone selling prices.

Revenue is recognised when a performance obligation is satisfied, in accordance with the terms of the contractual arrangement. Typically performance obligations are satisfied over time as services are rendered. Revenue recognised over time is based on the proportion of the level of service performed. Either an input method or an output method, depending on the particular arrangement, is used to measure progress for each performance obligation. For most fee arrangements, costs incurred are used as an objective input measure of performance. The primary input of substantially all work performed under these arrangements is labour. There is normally a direct relationship between costs incurred and the proportion of the contract performed to date. In other circumstances relevant output measures, such as the achievement of any project milestones stipulated in the contract, are used to assess proportional performance.

For our retainer arrangements, we have a stand ready obligation to perform services on an ongoing basis over the life of the contract. The scope of these arrangements are broad and generally are not reconcilable to another input or output criteria. In these instances, revenue is recognised using a time-based method resulting in straight-line revenue recognition.

The amount of revenue recognised depends on whether we act as an agent or as a principal. Certain arrangements with our clients are such that our responsibility is to arrange for a third party to provide a specified good or service to the client. In these cases we are acting as an agent as we do not control the relevant good or service before it is transferred to the client. When we act as an agent, the revenue recorded is the net amount retained. Costs incurred with external suppliers (such as production costs and media suppliers) are excluded from revenue and recorded as work in progress until billed.

The Group acts as principal when we control the specified good or service prior to transfer. When the Group acts as a principal (such as in-house production services, events, data investment management and branding), the revenue recorded is the gross amount billed. Billings related to out-of-pocket costs such as travel are also recognised at the gross amount billed with a corresponding amount recorded as an expense.

Further details on revenue recognition are detailed by sector below:

ADVERTISING AND MEDIA INVESTMENT MANAGEMENT

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

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

Variable incentive-based revenue typically comprises both quantitative and qualitative elements. Incentive compensation is estimated using the most likely amount and is included in revenue up to the amount that is highly probable not to result in a significant reversal of cumulative revenue recognised. The Group recognises incentive revenue as the related performance obligation is satisfied.

DATA INVESTMENT MANAGEMENT

Revenue for market research services is typically recognised over time based on input measures. For certain performance obligations, output measures such as the percentage of interviews completed, percentage of reports delivered to a client and the achievement of any project milestones stipulated in the contract are used to measure progress.

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

PUBLIC RELATIONS & PUBLIC AFFAIRS AND BRAND CONSULTING, HEALTH & WELLNESS AND SPECIALIST COMMUNICATIONS

Revenue for these services is typically derived from retainer fees and fees for services to be performed subject to specific agreement. Most revenue under these arrangements is earned over time, in accordance with the terms of the contractual arrangement.

TAXATION

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

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

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences unless specifically excepted by IAS 12 Income Taxes. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, which can require the use of accounting estimation and the exercise of judgement. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or other assets and liabilities (other than in a business combination) in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on enacted or substantively enacted legislation.

RETIREMENT BENEFIT COSTS

The Group accounts for retirement benefit costs in accordance with IAS 19 Employee Benefits.

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

For defined benefit plans the amounts charged to operating profit are the current service costs, past service costs, administrative expenses and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the consolidated income statement when the related plan amendment occurs. Net interest expense is calculated by applying the discount rate to the recognised overall surplus or deficit in the plan.

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

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

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

PROVISIONS FOR LIABILITIES AND CHARGES

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.

FINANCE LEASES

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

OPERATING LEASES

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

TRANSLATION OF FOREIGN CURRENCIES

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

HYPERINFLATION IN ARGENTINA

During 2018, Argentina was designated as a hyperinflationary economy and the financial statements of the Group's subsidiaries in Argentina have been adjusted for the effects of inflation in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies.

IAS 29 requires that the income statement is adjusted for inflation in the period and translated at the year-end foreign exchange rate and that non-monetary assets and liabilities on the balance sheet are restated to reflect the change in purchasing power caused by inflation from the date of initial recognition. This resulted in an increase in goodwill of £105.8 million and an increase in other intangibles of £19.5 million. The impact on other non-monetary assets and liabilities and the impact on the Group's income statement in the year were immaterial.

SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments (including share options) to certain employees and accounts for these awards in accordance with IFRS 2 Share-Based Payment. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding the fair value of equity settled share-based transactions are set out in notes 21 and 25.

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

CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTY IN APPLYING ACCOUNTING POLICIES

Management is required to make key decisions and judgements whilst acknowledging there is estimation uncertainty in the process of applying the Group's accounting policies. These estimates and judgements are reviewed on an ongoing basis. Where judgement has been applied or estimation uncertainty exists, the key factors taken into consideration are disclosed in the accounting policies and the appropriate note in these financial statements.

The most significant areas of estimation uncertainty include:

- Goodwill: The discounted cash flow methodology employed by the Group when testing for goodwill impairment requires estimates regarding revenue growth, operating margins, discount rates and working capital requirements. Further details of the methodology, discount rates, long-term growth rates and estimates used in relation to the goodwill impairment on VMLY&R in 2018 are set out in note 12.
- Payments due to vendors (earnout agreements) and liabilities in respect of put options: Estimates are required regarding growth rates in deriving future financial performance and discount rates to be applied when measuring the liabilities for earnouts and put options. Further details on growth rates and discount rates and the sensitivity to these estimates are set out in note 24.
- Provision for post-employment benefits: Estimates are required in the accounting for defined benefit pension plans, including establishing discount rates, rates of increase in salaries and pensions in payment, inflation and mortality assumptions. These estimates are made by management based on the advice of qualified advisors. Details of the assumptions used and the sensitivity of the benefit obligation to these assumptions are set out in note 22.

The most significant areas of judgements include:

- Revenue recognition: Judgement is required regarding the timing of recognition, particularly in relation to media volume income with regards to whether it is required to be passed back to the client and in assessing progress on performance obligations where revenue is recognised over time, particularly in the Group's Data Investment Management business. Further details are set out in the accounting policy.
- Taxation: Judgement is required in relation to the level of provisions required and the amount of taxes that will be due, particularly given the many countries in which the Group operates. Where the final tax outcome is different from the amounts recorded then such differences may expose the Group to additional tax liabilities or impact the carrying value of deferred tax assets, which would affect the future tax charge. Further details are set out in note 7.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991.

Mark Read
Chief Executive Officer
10 April 2019

Paul Richardson
Group Finance Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017[2] £m	2016[2] £m	2018[3] $m	2017[2,3] $m	2016[2,3] $m
Billings[1]		**55,798.3**	55,585.4	55,278.0	**74,352.7**	71,753.8	74,484.0
Revenue	2	**15,602.4**	15,804.2	14,887.3	**20,795.4**	20,399.7	20,053.6
Costs of services	3	**(12,663.5)**	(12,629.0)	(11,846.5)	**(16,902.5)**	(16,278.1)	(15,997.3)
Gross profit		**2,938.9**	3,175.2	3,040.8	**3,892.9**	4,121.6	4,056.3
General and administrative costs	3	**(1,507.5)**	(1,267.0)	(977.7)	**(1,979.6)**	(1,634.7)	(1,355.2)
Operating profit		**1,431.4**	1,908.2	2,063.1	**1,913.3**	2,486.9	2,701.1
Share of results of associates	4	**43.5**	113.5	49.8	**56.4**	147.4	65.3
Profit before interest and taxation		**1,474.9**	2,021.7	2,112.9	**1,969.7**	2,634.3	2,766.4
Finance income	6	**104.8**	95.2	80.4	**141.0**	122.8	109.6
Finance costs	6	**(289.3)**	(269.8)	(254.5)	**(386.9)**	(347.6)	(344.1)
Revaluation of financial instruments	6	**172.9**	262.2	(48.3)	**224.4**	346.4	(71.4)
Profit before taxation		**1,463.3**	2,109.3	1,890.5	**1,948.2**	2,755.9	2,460.5
Taxation	7	**(323.9)**	(197.0)	(388.9)	**(427.9)**	(249.1)	(516.7)
Profit for the year		**1,139.4**	1,912.3	1,501.6	**1,520.3**	2,506.8	1,943.8
Attributable to:							
Equity holders of the parent		**1,062.9**	1,816.6	1,400.1	**1,418.7**	2,382.4	1,808.7
Non-controlling interests		**76.5**	95.7	101.5	**101.6**	124.4	135.1
		1,139.4	1,912.3	1,501.6	**1,520.3**	2,506.8	1,943.8
Revenue less pass-through costs	2, 29	**12,826.6**	13,169.6	12,428.6	**17,094.9**	16,997.0	16,731.7
Headline PBIT	29	**2,047.3**	2,267.1	2,160.3	**2,701.5**	2,953.4	2,864.6
Headline PBIT margin[4]	2, 29	**16.0%**	17.2%	17.4%	**15.8%**	17.4%	17.1%
Headline PBT	29	**1,862.8**	2,092.5	1,986.2	**2,455.6**	2,728.6	2,630.1
Earnings per share							
Basic earnings per ordinary share	9	**85.2p**	144.0p	109.6p	**113.7¢**	188.9¢	141.5¢
Diluted earnings per ordinary share	9	**84.3p**	142.4p	108.0p	**112.5¢**	186.7¢	139.6¢

Notes

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

1 Billings is defined on page 178.

2 Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

3 The consolidated income statement above is also expressed in US dollars for information purposes only and is unaudited. It has been prepared assuming the US dollar is the reporting currency of the Group, whereby local currency results are translated into US dollars at actual monthly average exchange rates in the period presented. Among other currencies, this includes an average exchange rate of US$1.3351 to the pound sterling for the year 2018 (2017: US$1.2887, 2016: US$1.3547).

4 Previously referred to as revenue less pass-through costs margin.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m	2016 £m
Profit for the year	**1,139.4**	1,912.3	1,501.6
Items that may be reclassified subsequently to profit or loss:			
Exchange adjustments on foreign currency net investments	**78.9**	(465.2)	1,378.0
Gain/(loss) on revaluation of available for sale investments	**–**	32.1	(93.1)
	78.9	(433.1)	1,284.9
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit pension plans	**8.9**	17.0	(15.9)
Deferred tax on defined benefit pension plans	**(0.7)**	(24.6)	(0.4)
Movements on equity investments held at fair value through other comprehensive income	**(247.9)**	–	–
	(239.7)	(7.6)	(16.3)
Other comprehensive (loss)/income for the year	**(160.8)**	(440.7)	1,268.6
Total comprehensive income for the year	**978.6**	1,471.6	2,770.2
Attributable to:			
Equity holders of the parent	**893.1**	1,395.6	2,600.6
Non-controlling interests	**85.5**	76.0	169.6
	978.6	1,471.6	2,770.2

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017 £m	2016 £m
Net cash inflow from operating activities	11	**1,693.8**	1,408.1	1,773.8
Investing activities				
Acquisitions	11	**(298.8)**	(477.5)	(719.3)
Proceeds on disposal of investments and subsidiaries	11	**849.0**	296.0	80.5
Purchases of property, plant and equipment		**(314.8)**	(288.9)	(252.1)
Purchases of other intangible assets (including capitalised computer software)		**(60.4)**	(37.3)	(33.0)
Proceeds on disposal of property, plant and equipment		**9.5**	8.0	7.7
Net cash inflow/(outflow) from investing activities		**184.5**	(499.7)	(916.2)
Financing activities				
Share option proceeds		**1.2**	6.4	27.2
Cash consideration for non-controlling interests	11	**(109.9)**	(47.3)	(58.3)
Share repurchases and buy-backs	11	**(207.1)**	(504.2)	(427.4)
Net (decrease)/increase in borrowings	11	**(440.6)**	599.6	(22.5)
Financing and share issue costs		**(3.8)**	(0.8)	(6.4)
Equity dividends paid		**(747.4)**	(751.5)	(616.5)
Dividends paid to non-controlling interests in subsidiary undertakings		**(106.2)**	(87.8)	(89.6)
Net cash outflow from financing activities		**(1,613.8)**	(785.6)	(1,193.5)
Net increase/(decrease) in cash and cash equivalents		**264.5**	122.8	(335.9)
Translation of cash and cash equivalents		**(61.5)**	(27.2)	291.9
Cash and cash equivalents at beginning of year		**1,998.2**	1,902.6	1,946.6
Cash and cash equivalents at end of year	11	**2,201.2**	1,998.2	1,902.6

Reconciliation of net cash flow to movement in net debt:				
Net increase/(decrease) in cash and cash equivalents		**264.5**	122.8	(335.9)
Cash outflow/(inflow) from decrease/(increase) in debt financing		**444.4**	(598.8)	28.9
Debt acquired		**–**	–	(144.4)
Other movements		**(1.4)**	(1.9)	(2.3)
Translation differences		**(241.1)**	125.3	(466.0)
Movement of net debt in the year		**466.4**	(352.6)	(919.7)
Net debt at beginning of year		**(4,483.1)**	(4,130.5)	(3,210.8)
Net debt at end of year	10	**(4,016.7)**	(4,483.1)	(4,130.5)

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

CONSOLIDATED BALANCE SHEET

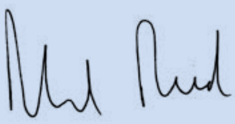
AT 31 DECEMBER 2018

	Notes	2018 £m	2017 £m[1]
Non-current assets			
Intangible assets:			
Goodwill	12	**13,202.8**	12,952.9
Other	12	**1,842.0**	2,018.4
Property, plant and equipment	13	**1,083.0**	979.5
Interests in associates and joint ventures	14	**796.8**	1,065.2
Other investments	14	**666.7**	1,153.5
Deferred tax assets	15	**153.0**	160.3
Trade and other receivables	16	**180.0**	176.2
		17,924.3	18,506.0
Current assets			
Corporate income tax recoverable		**198.7**	234.7
Trade and other receivables	16	**13,101.5**	12,530.7
Cash and short-term deposits		**2,643.2**	2,391.4
		15,943.4	15,156.8
Current liabilities			
Trade and other payables	17	**(15,038.4)**	(14,241.1)
Corporate income tax payable		**(545.9)**	(649.3)
Bank overdrafts, bonds and bank loans	19	**(1,025.1)**	(624.1)
		(16,609.4)	(15,514.5)
Net current liabilities		**(666.0)**	(357.7)
Total assets less current liabilities		**17,258.3**	18,148.3
Non-current liabilities			
Bonds and bank loans	19	**(5,634.8)**	(6,250.4)
Trade and other payables	18	**(841.4)**	(992.8)
Deferred tax liabilities	15	**(479.5)**	(513.7)
Provision for post-employment benefits	22	**(184.3)**	(206.3)
Provisions for liabilities and charges	20	**(311.7)**	(229.0)
		(7,451.7)	(8,192.2)
Net assets		**9,806.6**	9,956.1
Equity			
Called-up share capital	25	**133.3**	133.3
Share premium account		**569.7**	568.5
Other reserves	26	**393.5**	761.7
Own shares		**(1,255.7)**	(1,171.1)
Retained earnings		**9,541.4**	9,194.9
Equity shareholders' funds		**9,382.2**	9,487.3
Non-controlling interests		**424.4**	468.8
Total equity		**9,806.6**	9,956.1

Notes
The accompanying notes form an integral part of this consolidated balance sheet.
[1] Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2019.

Signed on behalf of the Board:



Mark Read
Chief Executive Officer

Paul Richardson
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Called-up share capital £m	Share premium account £m	Other reserves[1] £m	Own shares £m	Retained earnings[2] £m	Total equity share owners' funds £m	Non-controlling interests £m	Total £m
Restated balance at 1 January 2017	**133.2**	**562.2**	**1,185.2**	**(962.0)**	**8,400.0**	**9,318.6**	**443.1**	**9,761.7**
Ordinary shares issued	0.1	6.3	–	–	–	6.4	–	6.4
Treasury share additions	–	–	–	(289.6)	–	(289.6)	–	(289.6)
Treasury share allocations	–	–	–	112.2	(112.2)	–	–	–
Profit for the year	–	–	–	–	1,816.6	1,816.6	95.7	1,912.3
Exchange adjustments on foreign currency net investments	–	–	(445.5)	–	–	(445.5)	(19.7)	(465.2)
Gain on revaluation of available for sale investments	–	–	32.1	–	–	32.1	–	32.1
Actuarial gain on defined benefit pension plans	–	–	–	–	17.0	17.0	–	17.0
Deferred tax on defined benefit pension plans	–	–	–	–	(24.6)	(24.6)	–	(24.6)
Other comprehensive loss	–	–	(413.4)	–	(7.6)	(421.0)	(19.7)	(440.7)
Dividends paid	–	–	–	–	(751.5)	(751.5)	(87.8)	(839.3)
Non-cash share-based incentive plans (including share options)	–	–	–	–	105.0	105.0	–	105.0
Tax adjustment on share-based payments	–	–	–	–	3.0	3.0	–	3.0
Net movement in own shares held by ESOP Trusts	–	–	–	(31.7)	(182.9)	(214.6)	–	(214.6)
Recognition/remeasurement of financial instruments	–	–	(10.1)	–	(11.7)	(21.8)	–	(21.8)
Acquisition of subsidiaries[3]	–	–	–	–	(63.8)	(63.8)	37.5	(26.3)
Balance at 31 December 2017	**133.3**	**568.5**	**761.7**	**(1,171.1)**	**9,194.9**	**9,487.3**	**468.8**	**9,956.1**
Accounting policy change (IFRS 9)[4]	–	–	(407.4)	–	407.4	–	–	–
Revised balance at 1 January 2018	**133.3**	**568.5**	**354.3**	**(1,171.1)**	**9,602.3**	**9,487.3**	**468.8**	**9,956.1**
Ordinary shares issued	–	1.2	–	–	–	1.2	–	1.2
Treasury share additions	–	–	–	(104.3)	–	(104.3)	–	(104.3)
Treasury share allocations	–	–	–	1.5	(1.5)	–	–	–
Profit for the year	–	–	–	–	1,062.9	1,062.9	76.5	1,139.4
Exchange adjustments on foreign currency net investments	–	–	69.9	–	–	69.9	9.0	78.9
Movements on equity investments held at fair value through other comprehensive income	–	–	–	–	(247.9)	(247.9)	–	(247.9)
Actuarial gain on defined benefit pension plans	–	–	–	–	8.9	8.9	–	8.9
Deferred tax on defined benefit pension plans	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Other comprehensive income/(loss)	–	–	69.9	–	(239.7)	(169.8)	9.0	(160.8)
Dividends paid	–	–	–	–	(747.4)	(747.4)	(106.2)	(853.6)
Non-cash share-based incentive plans (including share options)	–	–	–	–	84.8	84.8	–	84.8
Tax adjustment on share-based payments	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Net movement in own shares held by ESOP Trusts	–	–	–	18.2	(121.0)	(102.8)	–	(102.8)
Recognition/remeasurement of financial instruments	–	–	(30.7)	–	10.3	(20.4)	–	(20.4)
Acquisition of subsidiaries[3]	–	–	–	–	(108.1)	(108.1)	(23.7)	(131.8)
Balance at 31 December 2018	**133.3**	**569.7**	**393.5**	**(1,255.7)**	**9,541.4**	**9,382.2**	**424.4**	**9,806.6**

Notes

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

1 Other reserves are analysed in note 26.

2 Retained earnings have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

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

4 The impact of the adoption of IFRS 9 Financial Instruments from 1 January 2018 is described in the accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 Sea Containers, 18 Upper Ground, London, United Kingdom, SE1 9GL. 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 creative transformation organisation offering national and multinational clients a comprehensive range of communications, experience, commerce and technology services. Substantially all of the Group's revenue is from contracts with customers.

The Group is organised into four reportable segments – Advertising and Media Investment Management; Data Investment Management; Public Relations & Public Affairs; and Brand Consulting, Health & Wellness and Specialist Communications. This last reportable segment includes direct, interactive and ecommerce.

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 Chief Executive Officer. 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.

Reportable segments

Reported contributions were as follows:

Income statement	Revenue[1,2] £m	Revenue less pass-through costs[2,3] £m	Headline PBIT[4] £m	Headline PBIT margin[2,3]
2018				
Advertising and Media Investment Management	**7,132.4**	**5,529.7**	**972.4**	**17.6%**
Data Investment Management	**2,582.5**	**1,965.4**	**301.1**	**15.3%**
Public Relations & Public Affairs	**1,210.7**	**1,136.3**	**183.7**	**16.2%**
Brand Consulting, Health & Wellness and Specialist Communications	**4,676.8**	**4,195.2**	**590.1**	**14.1%**
	15,602.4	**12,826.6**	**2,047.3**	**16.0%**
2017				
Advertising and Media Investment Management	7,368.7	5,889.3	1,109.0	18.8%
Data Investment Management	2,703.4	2,052.1	350.3	17.1%
Public Relations & Public Affairs	1,204.0	1,140.6	183.2	16.1%
Brand Consulting, Health & Wellness and Specialist Communications	4,528.1	4,087.6	624.6	15.3%
	15,804.2	13,169.6	2,267.1	17.2%
2016				
Advertising and Media Investment Management	6,709.4	5,450.9	1,027.2	18.8%
Data Investment Management	2,672.4	1,994.0	351.5	17.6%
Public Relations & Public Affairs	1,130.6	1,078.5	179.8	16.7%
Brand Consulting, Health & Wellness and Specialist Communications	4,374.9	3,905.2	601.8	15.4%
	14,887.3	12,428.6	2,160.3	17.4%

Notes

1 Intersegment sales have not been separately disclosed as they are not material.
2 Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.
3 Revenue less pass-through costs and headline PBIT margin are defined in note 29. Headline PBIT margin was previously referred to as revenue less pass-through costs margin.
4 A reconciliation from reported profit before interest and taxation to headline PBIT is provided in note 29. Reported profit before interest and taxation is reconciled to reported profit before taxation in the consolidated income statement.

Other information	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
2018						
Advertising and Media Investment Management	**41.9**	**190.8**	**111.8**	**148.0**	**16.6**	**203.4**
Data Investment Management	**12.8**	**68.9**	**56.6**	**0.9**	**12.5**	**113.1**
Public Relations & Public Affairs	**8.3**	**13.4**	**13.8**	**–**	**5.2**	**39.5**
Brand Consulting, Health & Wellness and Specialist Communications	**21.8**	**102.1**	**81.6**	**35.0**	**9.2**	**440.8**
	84.8	**375.2**	**263.8**	**183.9**	**43.5**	**796.8**
2017						
Advertising and Media Investment Management	57.0	171.3	108.8	19.5	27.0	193.1
Data Investment Management	14.4	58.8	59.9	–	15.3	106.3
Public Relations & Public Affairs	8.6	10.6	12.2	7.6	6.3	34.2
Brand Consulting, Health & Wellness and Specialist Communications	25.0	85.5	86.1	–	64.9	731.6
	105.0	326.2	267.0	27.1	113.5	1,065.2
2016						
Advertising and Media Investment Management	60.7	126.2	105.4	20.9	8.3	285.6
Data Investment Management	13.0	61.5	60.9	–	13.2	109.4
Public Relations & Public Affairs	7.5	10.3	11.6	–	3.2	108.1
Brand Consulting, Health & Wellness and Specialist Communications	25.3	87.1	81.5	6.1	25.1	566.3
	106.5	285.1	259.4	27.0	49.8	1,069.4

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.

Contributions by geographical area were as follows:

	2018 £m	2017[2] £m	2016[2] £m
Revenue[1]			
North America[3]	**5,371.0**	5,659.2	5,400.9
UK	**2,189.4**	2,133.4	1,970.7
Western Continental Europe	**3,335.3**	3,230.6	3,008.5
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**4,706.7**	4,781.0	4,507.2
	15,602.4	15,804.2	14,887.3
Revenue less pass-through costs[4]			
North America[3]	**4,474.2**	4,793.9	4,598.4
UK	**1,691.3**	1,688.0	1,590.2
Western Continental Europe	**2,735.4**	2,630.6	2,438.3
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**3,925.7**	4,057.1	3,801.7
	12,826.6	13,169.6	12,428.6
Headline PBIT[4]			
North America[3]	**804.0**	937.4	895.4
UK	**244.6**	280.0	261.4
Western Continental Europe	**372.7**	376.0	351.7
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**626.0**	673.7	651.8
	2,047.3	2,267.1	2,160.3

	Margin	Margin[2]	Margin[2]
Headline PBIT margin[4]			
North America	**18.0%**	19.6%	19.5%
UK	**14.5%**	16.6%	16.4%
Western Continental Europe	**13.6%**	14.3%	14.4%
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**15.9%**	16.6%	17.1%
	16.0%	17.2%	17.4%

Notes

1 Intersegment sales have not been separately disclosed as they are not material.
2 Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.
3 North America includes the US with revenue of £5,074.1 million (2017: £5,336.3 million, 2016: £5,107.2 million), revenue less pass-through costs of £4,236.7 million (2017: £4,535.3 million, 2016: £4,359.7 million) and headline PBIT of £761.6 million (2017: £890.3 million, 2016: £849.4 million).
4 Revenue less pass-through costs, headline PBIT and headline PBIT margin are defined in note 29. Headline PBIT margin was previously referred to as revenue less pass-through costs margin.

	2018 £m	2017 £m
Non-current assets[1]		
North America[2]	**7,269.7**	7,667.5
UK	**2,079.2**	2,098.2
Western Continental Europe	**4,385.6**	4,542.1
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**4,028.4**	4,035.8
	17,762.9	18,343.6

Notes

1 Non-current assets excluding financial instruments and deferred tax.
2 North America includes the US with non-current assets of £6,791.9 million (2017: £7,202.7 million).

3. COSTS OF SERVICES AND GENERAL AND ADMINISTRATIVE COSTS

	2018 £m	2017[1] £m	2016[1] £m
Costs of services	**12,663.5**	12,629.0	11,846.5
General and administrative costs	**1,507.5**	1,267.0	977.7
	14,171.0	13,896.0	12,824.2

Costs of services and general and administrative costs include:

	2018 £m	2017[1] £m	2016[1] £m
Staff costs (note 5)	**8,172.6**	8,319.0	7,784.9
Establishment costs	**871.7**	888.6	836.5
Media pass-through costs	**1,458.0**	1,429.4	1,276.2
Data collection pass-through costs	**609.2**	646.4	669.8
Other costs of services and general and administrative costs[2]	**3,059.5**	2,612.6	2,256.8
	14,171.0	13,896.0	12,824.2
Other costs of services and general and administrative costs include:			
Goodwill impairment (note 12)	**183.9**	27.1	27.0
Investment write-downs	**2.0**	95.9	86.1
Restructuring and transformation costs	**302.3**	56.8	27.4
Amortisation and impairment of acquired intangible assets (note 12)	**280.0**	195.1	168.4
Amortisation of other intangible assets (note 12)	**38.7**	36.3	38.6
Depreciation of property, plant and equipment	**225.1**	230.7	215.2
Losses on sale of property, plant and equipment	**0.6**	1.1	0.8
Gains on disposal of investments and subsidiaries	**(235.5)**	(129.0)	(44.3)
(Gains)/losses on remeasurement of equity interests arising from a change in scope of ownership	**(2.0)**	0.3	(232.4)
Net foreign exchange (gains)/losses	**(13.2)**	12.9	(17.0)

Notes

1 Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.
2 Other costs of services and general and administrative costs include £708.6 million (2017: £558.8 million, 2016: £512.7 million) of other pass-through costs.

In 2018, operating profit includes credits totalling £29.9 million (2017: £44.8 million, 2016: £26.3 million) relating to the release of excess provisions and other balances established in respect of acquisitions completed prior to 2017. Further details of the Group's approach to acquisition reserves, as required by IFRS 3 Business Combinations, are given in note 27.

The goodwill impairment charge of £183.9 million (2017: £27.1 million, 2016: £27.0 million) primarily relates to a charge of £148.0 million on VMLY&R, with the remaining £35.9 million relating to a number of under-performing businesses in the Group. In certain markets, the impact of current, local economic conditions and trading circumstances on these businesses is sufficiently severe to indicate impairment to the carrying value of goodwill.

Investment write-downs of £95.9 million in 2017 (2016: £86.1 million) include £53.1 million in relation to comScore Inc, which had not released any financial statements in relation to its 2015, 2016 or 2017 results due to an internal investigation by their Audit Committee. In 2017, the market value of comScore Inc fell below the Group's carrying value. Other investment write-downs relate to certain non-core minority investments in the US where forecast financial performance and/or liquidity issues indicate a permanent decline in the recoverability of the Group's investment.

In 2018, restructuring and transformation costs of £302.3 million comprise £210.3 million of restructuring costs and £92.0 million transformation costs with respect to strategic initiatives such as co-locations in major cities, IT transformation and shared services. In the fourth quarter of 2018, £234.0 million of restructuring and transformation costs were incurred in relation to the strategic review of the Group's operations, as outlined in the investor day on 11 December 2018. As part of that review, restructuring actions have been taken to right-size underperforming businesses, address high cost severance markets and simplify operational structures. Further restructuring and transformation costs will be incurred in 2019, 2020 and 2021. The remaining £68.3 million primarily relates to restructuring costs recorded in the first half and transformation costs in relation to the continuing global IT transformation programme.

In 2017, restructuring and transformation costs of £56.8 million (2016: £27.4 million) predominantly comprise £33.7 million (2016: £nil) of severance costs arising from a structural assessment of certain of the Group's operations, primarily in the mature markets; and £12.8 million (2016: £27.4 million) of costs resulting from the project to transform and rationalise the Group's IT services and infrastructure including costs relating to the cyber attack in June 2017.

Gains on disposal of investments and subsidiaries of £235.5 million in 2018 (2017: £129.0 million, 2016: £44.3 million) include £185.3 million gains on the disposal of the Group's interest in Globant S.A. Gains in 2017 include £92.3 million on the sale of the Group's equity interest in Asatsu-DK Inc following its acquisition by Bain Capital.

In 2016, gains on remeasurement of equity interests arising from a change in scope of ownership of £232.4 million primarily comprise gains in relation to the reclassification of the Group's interest in the Imagina Group in Spain from other investments to interests in associates, resulting from WPP attaining significant influence in the period.

Auditors' remuneration:

	2018 £m	2017 £m	2016 £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	**21.7**	20.7	19.4
Other services pursuant to legislation	**4.2**	4.0	3.7
Fees payable to the auditors pursuant to legislation	**27.3**	26.1	24.5
Tax advisory services	**–**	0.1	1.6
Tax compliance services	**0.1**	0.1	1.3
Corporate finance services	**–**	–	0.1
Other services[1]	**4.7**	4.6	5.7
Total non-audit fees	**4.8**	4.8	8.7
Total fees	**32.1**	30.9	33.2

Note

[1] Other services include audits for earnout purposes.

	2018 £m	2017 £m	2016 £m
Operating lease rentals:			
Land and buildings	**585.3**	586.6	556.1
Sublease income	**(25.4)**	(17.9)	(11.6)
	559.9	568.7	544.5
Plant and machinery	**10.6**	11.9	10.6
	570.5	580.6	555.1

MINIMUM COMMITTED ANNUAL RENTALS

Amounts payable in 2019 under leases will be as follows:

	Plant and machinery			Land and buildings		
	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m
In respect of operating leases which expire:						
– within one year	3.6	5.1	4.0	70.2	88.6	85.1
– within two to five years	19.2	10.8	10.5	272.7	236.2	287.9
– after five years	0.4	0.1	–	246.3	207.8	187.0
	23.2	16.0	14.5	589.2	532.6	560.0

Future minimum annual amounts payable under all lease commitments in existence at 31 December 2018 are as follows:

	Minimum gross rental payments £m	Less lease-related costs[1] £m	Minimum net rental payments £m	Less sub-let rentals £m	Net payment £m
Year ending 31 December					
2019	612.4	(54.2)	558.2	(11.5)	546.7
2020	475.0	(51.0)	424.0	(6.4)	417.6
2021	415.3	(47.3)	368.0	(4.9)	363.1
2022	362.4	(44.8)	317.6	(4.3)	313.3
2023	323.4	(43.1)	280.3	(3.1)	277.2
Later years	2,074.1	(362.5)	1,711.6	(1.3)	1,710.3
	4,262.6	(602.9)	3,659.7	(31.5)	3,628.2

Note

[1] Lease-related costs include real estate taxes, insurance costs and operating costs embedded in the rental payments to the landlord.

4. SHARE OF RESULTS OF ASSOCIATES

Share of results of associates include:

	2018 £m	2017 £m	2016 £m
Share of profit before interest and taxation	**123.8**	145.1	97.1
Share of exceptional (losses)/gains	**(41.7)**	0.8	(15.2)
Share of interest and non-controlling interests	**(9.7)**	(7.8)	(4.7)
Share of taxation	**(28.9)**	(24.6)	(27.4)
	43.5	113.5	49.8

5. OUR PEOPLE

Our staff numbers averaged 133,903 for the year ended 31 December 2018 against 134,428 in 2017 and 132,657 in 2016. Their geographical distribution was as follows:

	2018	2017	2016
North America	**25,990**	27,399	27,246
UK	**14,331**	14,197	14,070
Western Continental Europe	**26,825**	25,700	24,996
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**66,757**	67,132	66,345
	133,903	134,428	132,657

Their reportable segment distribution was as follows:

	2018	2017	2016
Advertising and Media Investment Management	**55,421**	56,789	55,120
Data Investment Management	**28,309**	28,629	29,279
Public Relations & Public Affairs	**9,048**	9,082	9,054
Brand Consulting, Health & Wellness and Specialist Communications	**41,125**	39,928	39,204
	133,903	134,428	132,657

At the end of 2018, staff numbers were 134,281 (2017: 134,413, 2016: 134,341).

Staff costs include:

	2018 £m	2017 £m	2016 £m
Wages and salaries	**5,710.0**	5,832.3	5,395.6
Cash-based incentive plans	**240.7**	219.2	260.2
Share-based incentive plans (note 21)	**84.8**	105.0	106.5
Social security costs	**717.5**	720.3	658.1
Pension costs (note 22)	**191.2**	192.0	178.1
Severance	**37.5**	39.5	34.5
Other staff costs[1]	**1,190.9**	1,210.7	1,151.9
	8,172.6	8,319.0	7,784.9
Staff cost to revenue less pass-through costs[2] ratio	**63.7%**	63.2%	62.6%

Notes

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

[2] Revenue less pass-through costs is defined in note 29.

Included above are charges of £2.0 million (2017: £12.3 million, 2016: £15.5 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 104-119.

6. FINANCE INCOME, FINANCE COSTS AND REVALUATION OF FINANCIAL INSTRUMENTS

Finance income includes:

	2018 £m	2017 £m	2016 £m
Income from equity investments	**15.4**	16.8	12.5
Interest income	**89.4**	78.4	67.9
	104.8	95.2	80.4

Finance costs include:

	2018 £m	2017 £m	2016 £m
Net interest expense on pension plans (note 22)	**4.4**	6.3	6.7
Interest on other long-term employee benefits	**4.0**	3.9	2.7
Interest expense and similar charges[1]	**280.9**	259.6	245.1
	289.3	269.8	254.5

Revaluation of financial instruments include:

	2018 £m	2017 £m	2016 £m
Movements in fair value of treasury instruments	**(12.4)**	1.1	(19.5)
Revaluation of investments held at fair value through profit or loss	**68.2**	–	–
Revaluation of put options over non-controlling interests	**34.5**	52.5	(17.2)
Revaluation of payments due to vendors (earnout agreements)	**82.6**	208.6	(11.6)
	172.9	262.2	(48.3)

Note

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

The majority of the Group's long-term debt is represented by $2,784 million of US dollar bonds at an average interest rate of 4.46%, €3,700 million of Eurobonds at an average interest rate of 1.64% and £600 million of Sterling bonds at an average interest rate of 4.04%.

Average borrowings under the US Dollar Revolving Credit Facilities (note 10) amounted to the equivalent of $125 million at an average interest rate of 0.96% (2017: $715 million at an average interest rate of 0.78%).

Average borrowings under the Australian dollar Revolving Credit Facilities, amounted to A$439 million at an average rate of 3.27% (2017: A$412 million at an average rate of 3.24%).

Average borrowings under the US Commercial Paper Programme for 2018 amounted to $540 million at an average interest rate of 2.28% inclusive of margin (2017: $860 million at an average interest rate of 1.47% inclusive of margin).

7. TAXATION

The tax rate on reported profit before tax was 22.1% (2017: 9.3%, 2016: 20.6%). The headline tax rate was 22.5% (2017: 22.0%, 2016: 21.0%). The cash tax rate on headline PBT was 20.6% (2017: 20.3%, 2016: 20.9%).

On 22 December 2017, The Tax Cuts and Jobs Act was enacted in the US which reduced the federal tax rate from 35% to 21% from 1 January 2018. As a result, deferred tax assets and liabilities were remeasured at the end of 2017, leading to a non-cash credit to the income statement of £234.1 million, partially offset by a one-time deemed repatriation tax charge related to unremitted foreign earnings of £28.1 million, payable over eight years. The impact of US tax reform has been excluded from the headline tax charge.

The tax charge comprises:

	2018 £m	2017 £m	2016 £m
Corporation tax			
Current year	**481.9**	523.4	569.4
Prior years	**(111.8)**	(98.6)	(80.3)
	370.1	424.8	489.1
Deferred tax			
Current year	**(49.0)**	(235.2)	(88.0)
Prior years	**2.8**	7.4	(12.2)
	(46.2)	(227.8)	(100.2)
Tax charge	**323.9**	197.0	388.9

The corporation tax credit for prior years in 2018, 2017 and 2016, mainly comprises the release of a number of provisions following the resolution of tax matters in various countries.

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

	2018 £m	2017 £m	2016 £m
Profit before taxation	**1,463.3**	2,109.3	1,890.5
Tax at the corporation tax rate of 19.0%[1]	**278.0**	406.0	378.1
Tax effect of share of results of associates	**(8.3)**	(21.8)	(10.0)
Irrecoverable withholding taxes	**55.9**	37.0	36.3
Items that are not deductible/(taxable) in determining taxable profit	**28.7**	(3.9)	9.4
Effect of different tax rates in subsidiaries operating in other jurisdictions	**90.2**	140.3	60.4
US Transition Tax related to unremitted foreign earnings	**(7.3)**	28.1	–
Effect of change in US tax rate on deferred tax balances	**–**	(234.1)	–
Origination and reversal of unrecognised temporary differences	**7.5**	(17.2)	(4.3)
Tax losses not recognised or utilised in the year	**22.3**	32.5	52.2
Utilisation of tax losses not previously recognised	**(25.6)**	(10.4)	(11.3)
Recognition of temporary differences not previously recognised	**(8.4)**	(68.3)	(29.4)
Net release of prior year provisions in relation to acquired businesses	**(20.4)**	(15.0)	(23.3)
Other prior year adjustments	**(88.7)**	(76.2)	(69.2)
Tax charge	**323.9**	197.0	388.9
Effective tax rate on profit before tax	**22.1%**	9.3%	20.6%

Note

1 The Parent Company of the Group is tax resident in the UK. As the Group is subject to the tax rates of more than one country, it has chosen to present its reconciliation of the tax charge using the UK corporation tax rate of 19% (2017: 19.25%, 2016: 20%).

The headline tax charge excludes the impact of items that are excluded from headline PBT and excludes the deferred tax impact of the amortisation of acquired intangible assets and other goodwill items as these will only reverse in the event of future disposals of those assets, in which case any accounting gain or loss would be excluded from headline profits. The impact of the Tax Cuts and Jobs Act has also been excluded from the headline tax charge.

The calculation of the headline tax rate is as follows:

	2018 £m	2017 £m	2016 £m
Headline PBT[1]	**1,862.8**	2,092.5	1,986.2
Tax charge	**323.9**	197.0	388.9
Tax (charge)/credit relating to gains on disposal of investments and subsidiaries	**(0.8)**	2.1	(1.1)
Tax credit/(charge) relating to restructuring and transformation costs	**52.3**	10.0	(3.0)
Deferred tax relating to gains on disposal of investments and subsidiaries	**(0.7)**	0.2	3.2
Net tax impact of US tax reform	**14.3**	206.0	–
Deferred tax impact of the amortisation of acquired intangible assets and other goodwill items	**30.1**	45.0	29.2
Headline tax charge	**419.1**	460.3	417.2
Headline tax rate	**22.5%**	22.0%	21.0%

Note
[1] Headline PBT is defined in note 29.

FACTORS AFFECTING THE TAX CHARGE IN FUTURE YEARS

Given the Group's geographic mix of profits and the changing international tax environment, the tax rate is expected to increase slightly over the next few years.

Factors that may affect the Group's future tax charge include the levels and mix of profits in the many countries in which we operate, the prevailing tax rates in each of those countries and also the foreign exchange rates that apply to those profits. The tax charge may also be affected by the impact of acquisitions, disposals and other corporate restructurings, the resolution of open tax issues, future planning, and the ability to use brought forward tax losses. Furthermore, changes in local or international tax rules, for example prompted by the OECD's Base Erosion and Profit Shifting project (a global initiative to improve the fairness and integrity of tax systems), or new challenges by tax or competition authorities, for example, the European Commission's state aid investigation into Group Financing Exemption in the UK CFC rules announced in October 2017, may expose us to additional tax liabilities or impact the carrying value of our deferred tax assets, which would affect the future tax charge.

The Group has a number of open tax returns and various ongoing tax audits worldwide but does not currently expect material additional tax exposures to arise, above the amounts provided, as and when the audits are concluded. Liabilities relating to these open and judgemental matters are based upon estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts which were initially recorded then such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

TAX RISK MANAGEMENT

We maintain constructive engagement with the tax authorities and relevant government representatives, as well as active engagement with a wide range of international companies and business organisations with similar issues. We engage advisors and legal counsel to obtain opinions on tax legislation and principles. We have a Tax Risk Management Strategy in place which sets out the controls established and our assessment procedures for decision-making and how we monitor tax risk. We monitor proposed changes in taxation legislation and ensure these are taken into account when we consider our future business plans. Our Directors are informed by management of any tax law changes, the nature and status of any significant ongoing tax audits, and other developments that could materially affect the Group's tax position.

8. ORDINARY DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2018	2017	2016	2018	2017	2016
Per share	Pence per share			£m	£m	£m
2017 Final dividend	**37.30p**	37.05p	28.78p	**464.6**	467.2	368.5
2018 Interim dividend	**22.70p**	22.70p	19.55p	**282.8**	284.3	248.0
	60.00p	59.75p	48.33p	**747.4**	751.5	616.5

	2018	2017	2016	2018	2017	2016
Per ADR[1]	Cents per ADR			$m	$m	$m
2017 Final dividend	**240.34¢**	250.96¢	219.99¢	**598.7**	632.9	563.4
2018 Interim dividend	**151.53¢**	146.27¢	132.42¢	**377.6**	366.4	335.9
	391.87¢	397.23¢	352.41¢	**976.3**	999.3	899.3

Proposed final dividend for the year ended 31 December 2018:

	2018	2017	2016
Per share	Pence per share		
Final dividend	**37.30p**	37.30p	37.05p

	2018	2017	2016
Per ADR[1]	Cents per ADR		
Final dividend	**249.00¢**	240.34¢	250.96¢

Note
[1] These figures have been translated for convenience purposes only, using the approximate average rate for the year shown on page 127. 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:

	2018	2017	2016
Reported earnings[1] (£m)	**1,062.9**	1,816.6	1,400.1
Headline earnings (£m) (note 29)	**1,362.5**	1,536.5	1,467.5
Average shares used in basic EPS calculation (m)	**1,247.8**	1,261.1	1,277.8
Reported EPS	**85.2p**	144.0p	109.6p
Headline EPS	**109.2p**	121.8p	114.8p

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:

	2018	2017	2016
Diluted reported earnings (£m)	**1,062.9**	1,816.6	1,400.1
Diluted headline earnings (£m)	**1,362.5**	1,536.5	1,467.5
Average shares used in diluted EPS calculation (m)	**1,261.2**	1,275.8	1,296.0
Diluted reported EPS	**84.3p**	142.4p	108.0p
Diluted headline EPS	**108.0p**	120.4p	113.2p

Diluted EPS has been calculated based on the diluted reported and diluted headline earnings amounts above. At 31 December 2018, options to purchase 16.9 million ordinary shares (2017: 8.2 million, 2016: 8.4 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:

	2018 m	2017 m	2016 m
Average shares used in basic EPS calculation	**1,247.8**	1,261.1	1,277.8
Dilutive share options outstanding	**1.6**	1.8	2.4
Other potentially issuable shares	**11.8**	12.9	15.8
Shares used in diluted EPS calculation	**1,261.2**	1,275.8	1,296.0

At 31 December 2018 there were 1,332,678,227 (2017: 1,332,511,552, 2016: 1,331,880,730) ordinary shares in issue.

10. SOURCES OF FINANCE

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

	Shares		Debt	
	2018 £m	2017 £m	**2018** £m	2017 £m
Analysis of changes in financing				
Beginning of year	**701.8**	695.4	**6,481.3**	6,033.1
Ordinary shares issued	**1.2**	6.4	**–**	–
Net (decrease)/increase in drawings on bank loans and corporate bonds	**–**	–	**(440.6)**	599.6
Amortisation of financing costs included in debt	**–**	–	**7.7**	8.0
Other movements	**–**	–	**(10.1)**	(6.9)
Exchange adjustments	**–**	–	**179.6**	(152.5)
End of year	**703.0**	701.8	**6,217.9**	6,481.3

Note
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 2018, the Company's share base was entirely composed of ordinary equity share capital and share premium of £703.0 million (2017: £701.8 million), further details of which are disclosed in note 25.

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, $750 million of 3.75% bonds due September 2024, $272 million of 5.125% bonds due September 2042 and $450 million of 5.625% bonds due November 2043.

Eurobonds The Group has in issue €600 million of 0.75% bonds due November 2019, €750 million of 3% bonds due November 2023, €750 million of 2.25% bonds due September 2026, €600 million of 1.625% bonds due March 2030 and €250 million of Floating Rate Notes carrying a coupon of 3m EURIBOR + 0.32% due May 2020.

In March 2018, the Group issued €250 million of Floating Rate Notes carrying a coupon of 3m EURIBOR + 0.45% due March 2022 and €500 million of 1.375% bonds due March 2025.

Sterling bonds The Group has in issue £200 million of 6.375% bonds due November 2020 and £400 million of 2.875% bonds due September 2046. On 27 March 2019, the Group repaid the £200 million of 6.375% bonds due in 2020 following a tender offer.

Revolving Credit Facility The Group has a five-year Revolving Credit Facility of $2.5 billion due July 2021. On 15 March 2019, the Group refinanced the facility and extended the term of the $2.5 billion five-year revolving credit facility to March 2024. The Group's borrowing under these facilities, which are drawn down predominantly in US dollars and pounds sterling, averaged the equivalent of $125 million in 2018. The Group has a A$150 million Revolving Credit Facility due June 2019 and a A$370 million Revolving Credit Facility due June 2021. The Group's borrowings under the Australian dollar facilities which were drawn down in Australian dollars and New Zealand dollars, averaged the equivalent of A$439 million in 2018. The Group had available undrawn committed credit facilities of £2,074.7 million at 31 December 2018 (2017: £1,163.8 million).

Borrowings under the $2.5 billion Revolving Credit Facility are governed by certain financial covenants based on the results and financial position of the Group. Borrowings under the A$150 million Revolving Credit Facility and the A$370 million Revolving Credit Facility are governed by certain financial covenants based on the results and financial position of WPP AUNZ.

US COMMERCIAL PAPER PROGRAMME

The Group operates a commercial paper programme using its Revolving Credit Facility as a backstop. The average commercial paper outstanding in 2018 was $540.0 million. There was no US Commercial Paper outstanding at 31 December 2018.

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:

	2018 £m	2017 £m
Within one year	**(748.4)**	(391.7)
Between one and two years	**(596.8)**	(896.3)
Between two and three years	**(937.1)**	(584.3)
Between three and four years	**(742.5)**	(1,537.8)
Between four and five years	**(786.8)**	(487.9)
Over five years	**(4,199.7)**	(4,519.1)
Debt financing (including interest) under the Revolving Credit Facility and in relation to unsecured loan notes	**(8,011.3)**	(8,417.1)
Short-term overdrafts – within one year	**(442.0)**	(393.2)
Future anticipated cash flows	**(8,453.3)**	(8,810.3)
Effect of discounting/financing rates	**1,793.4**	1,935.8
Debt financing	**(6,659.9)**	(6,874.5)
Cash and short-term deposits	**2,643.2**	2,391.4
Net debt	**(4,016.7)**	(4,483.1)

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

2018 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	1,154.8	4.58	n/a	181
	– floating	1,029.6	n/a	LIBOR	n/a
£	– fixed	1,044.1	3.43	n/a	232
€	– fixed	2,425.9	1.99	n/a	75
	– floating	449.2	n/a	EURIBOR	n/a
Other		114.3	n/a	n/a	n/a
		6,217.9			

2017 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	1,146.1	4.62%	n/a	199
	– floating	1,760.9	n/a	LIBOR	n/a
£	– fixed	600.0	4.04%	n/a	245
€	– fixed	2,623.9	1.85%	n/a	80
	– floating	222.2	n/a	EURIBOR	n/a
Other		128.2	n/a	n/a	n/a
		6,481.3			

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, forward contracts and other foreign exchange swaps:

	Financial liabilities		Financial assets	
2018	Payable £m	Receivable £m	Payable £m	Receivable £m
Within one year	229.3	221.9	124.6	120.6
Between one and two years	50.0	45.3	11.8	6.5
Between two and three years	688.4	685.3	11.5	6.4
Between three and four years	408.5	406.6	11.6	6.5
Between four and five years	–	–	11.6	6.6
Over five years	–	–	461.4	498.2
	1,376.2	**1,359.1**	**632.5**	**644.8**

2017	Financial liabilities Payable £m	Financial liabilities Receivable £m	Financial assets Payable £m	Financial assets Receivable £m
Within one year	97.8	96.7	123.7	128.8
Between one and two years	21.4	20.1	38.6	38.8
Between two and three years	20.5	18.8	39.5	38.6
Between three and four years	20.7	18.6	851.7	851.0
Between four and five years	523.5	521.1	–	–
Over five years	–	–	–	–
	683.9	675.3	1,053.5	1,057.2

11. ANALYSIS OF CASH FLOWS

The following tables analyse the items included within the main cash flow headings on page 129.

Net cash from operating activities:

	2018 £m	2017 £m	2016 £m
Profit for the year	**1,139.4**	1,912.3	1,501.6
Taxation	**323.9**	197.0	388.9
Revaluation of financial instruments	**(172.9)**	(262.2)	48.3
Finance costs	**289.3**	269.8	254.5
Finance income	**(104.8)**	(95.2)	(80.4)
Share of results of associates	**(43.5)**	(113.5)	(49.8)
Operating profit	**1,431.4**	1,908.2	2,063.1
Adjustments for:			
Non-cash share-based incentive plans (including share options)	**84.8**	105.0	106.5
Depreciation of property, plant and equipment	**225.1**	230.7	220.8
Impairment of goodwill	**183.9**	27.1	27.0
Amortisation and impairment of acquired intangible assets	**280.0**	195.1	168.4
Amortisation of other intangible assets	**38.7**	36.3	38.6
Investment write-downs	**2.0**	95.9	86.1
Gains on disposal of investments and subsidiaries	**(235.5)**	(129.0)	(44.3)
(Gains)/losses on remeasurement of equity interests arising from a change in scope of ownership	**(2.0)**	0.3	(232.4)
Losses on sale of property, plant and equipment	**0.6**	1.1	0.8
Operating cash flow before movements in working capital and provisions	**2,009.0**	2,470.7	2,434.6
Increase in trade receivables and accrued income	**(298.9)**	(90.4)	(70.4)
Increase/(decrease) in trade payables and deferred income	**500.9**	(170.8)	188.7
(Increase)/decrease in other receivables	**(52.9)**	(110.6)	77.4
Decrease in other payables – short-term	**(31.8)**	(122.8)	(303.7)
Increase in other payables – long-term	**0.4**	20.1	4.5
Increase/(decrease) in provisions	**48.0**	(57.3)	(47.8)
Cash generated by operations	**2,174.7**	1,938.9	2,283.3
Corporation and overseas tax paid	**(383.6)**	(424.7)	(414.2)
Interest and similar charges paid	**(252.8)**	(246.6)	(242.1)
Interest received	**90.4**	76.9	73.9
Investment income	**15.4**	16.8	12.5
Dividends from associates	**49.7**	46.8	60.4
Net cash inflow from operating activities	**1,693.8**	1,408.1	1,773.8

Acquisitions and disposals:

	2018 £m	2017 £m	2016 £m
Initial cash consideration	**(126.7)**	(214.8)	(424.1)
Cash and cash equivalents acquired (net)[1]	**(3.8)**	28.9	57.3
Earnout payments	**(120.2)**	(199.1)	(92.3)
Purchase of other investments (including associates)	**(48.1)**	(92.5)	(260.2)
Acquisitions	**(298.8)**	(477.5)	(719.3)
Proceeds on disposal of investments and subsidiaries[2]	**849.0**	296.0	80.5
Acquisitions and disposals	**550.2**	(181.5)	(638.8)
Cash consideration for non-controlling interests	**(109.9)**	(47.3)	(58.3)
Net cash inflow/(outflow)	**440.3**	(228.8)	(697.1)

Notes

1 In 2018, cash and cash equivalents acquired comprises £11.3 million from acquisitions offset by £15.1 million from disposals.

2 Proceeds on disposal of investments and subsidiaries includes return of capital from investments in associates.

Share repurchases and buy-backs:

	2018 £m	2017 £m	2016 £m
Purchase of own shares by ESOP Trusts	**(102.8)**	(214.6)	(152.9)
Shares purchased into treasury	**(104.3)**	(289.6)	(274.5)
Net cash outflow	**(207.1)**	(504.2)	(427.4)

Net (decrease)/increase in borrowings:

	2018 £m	2017 £m	2016 £m
(Decrease)/increase in drawings on bank loans	**(819.3)**	785.6	(30.4)
Proceeds from issue of €250 million bonds	**218.8**	214.0	–
Proceeds from issue of €500 million bonds	**438.0**	–	–
Repayment of €252 million bonds	**(220.0)**	–	–
Partial repayment of $300 million bonds	**(20.8)**	–	–
Partial repayment of $500 million bonds	**(37.3)**	–	–
Repayment of £400 million bonds	**–**	(400.0)	–
Proceeds from issue of £400 million bonds	**–**	–	400.0
Repayment of €498 million bonds	**–**	–	(392.1)
Net cash (outflow)/inflow	**(440.6)**	599.6	(22.5)

Cash and cash equivalents:

	2018 £m	2017 £m	2016 £m
Cash at bank and in hand	**2,010.8**	2,049.6	2,256.2
Short-term bank deposits	**632.4**	341.8	180.7
Overdrafts[1]	**(442.0)**	(393.2)	(534.3)
	2,201.2	1,998.2	1,902.6

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 2018 and 2017 were as follows:

	£m
Cost:	
1 January 2017	13,939.4
Additions[1]	301.0
Revision of earnout estimates	(60.7)
Exchange adjustments	(504.4)
31 December 2017	13,675.3
Additions[1]	154.4
Revision of earnout estimates	(68.3)
Exchange adjustments	368.1
31 December 2018	**14,129.5**
Accumulated impairment losses and write-downs:	
1 January 2017	725.1
Impairment losses for the year	27.1
Exchange adjustments	(29.8)
31 December 2017	722.4
Impairment losses for the year	183.9
Exchange adjustments	20.4
31 December 2018	**926.7**
Net book value:	
31 December 2018	**13,202.8**
31 December 2017	12,952.9
1 January 2017	13,214.3

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:

	2018 £m	2017 £m
GroupM	**2,942.9**	2,906.7
Kantar	**2,522.9**	2,518.2
Wunderman	**1,581.2**	1,514.5
VMLY&R	**930.4**	1,091.8
Other	**5,225.4**	4,921.7
Total goodwill	**13,202.8**	12,952.9

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 2018 and 2017 were as follows:

	Brands with an indefinite useful life £m	Acquired intangibles £m	Other £m	Total £m
Cost:				
1 January 2017	1,141.3	2,535.5	404.1	4,080.9
Additions	–	–	37.3	37.3
Disposals	–	–	(15.8)	(15.8)
New acquisitions	–	79.0	0.8	79.8
Other movements[1]	–	6.4	7.2	13.6
Exchange adjustments	(60.0)	(73.1)	(22.1)	(155.2)
31 December 2017	1,081.3	2,547.8	411.5	4,040.6
Additions	–	–	60.4	60.4
Disposals	–	(0.9)	(37.3)	(38.2)
New acquisitions	–	40.3	–	40.3
Other movements[1]	–	2.9	(7.4)	(4.5)
Exchange adjustments	51.5	19.9	10.1	81.5
31 December 2018	**1,132.8**	**2,610.0**	**437.3**	**4,180.1**
Amortisation and impairment:				
1 January 2017	–	1,563.0	300.6	1,863.6
Charge for the year	–	189.4	36.3	225.7
Disposals	–	–	(14.9)	(14.9)
Other movements	–	–	2.5	2.5
Exchange adjustments	–	(33.7)	(21.0)	(54.7)
31 December 2017	–	1,718.7	303.5	2,022.2
Charge for the year	–	275.8	38.7	314.5
Disposals	–	(0.7)	(27.3)	(28.0)
Other movements	–	–	(1.9)	(1.9)
Exchange adjustments	–	21.4	9.9	31.3
31 December 2018	**–**	**2,015.2**	**322.9**	**2,338.1**
Net book value:				
31 December 2018	**1,132.8**	**594.8**	**114.4**	**1,842.0**
31 December 2017	1,081.3	829.1	108.0	2,018.4
1 January 2017	1,141.3	972.5	103.5	2,217.3

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 2018 include brand names of £361.2 million (2017: £445.6 million), customer-related intangibles of £220.6 million (2017: £360.9 million), and other assets (including proprietary tools) of £13.0 million (2017: £22.6 million).

The total amortisation and impairment of acquired intangible assets of £280.0 million (2017: £195.1 million) includes an impairment charge of £126.1 million (2017: £6.0 million) comprising £58.6 million in regard to certain brand names that are no longer in use and £67.5 million in regard to customer relationships where the underlying clients have been lost. £70.6 million of the impairment charge relates to the Advertising and Media Investment Management segment, £38.2 million relates to the Data Investment Management segment, and £17.3 million relates to the Brand Consulting, Health & Wellness and Specialist Communications segment. In addition, the total amortisation and impairment of acquired intangible assets includes £4.2 million (2017: £5.7 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 impairment review is undertaken annually on 30 September. The review assessed whether the carrying value of goodwill and intangible assets with indefinite useful lives was supported by the net present value of future cash flows, using a pre-tax discount rate of 9.0% (2017: 8.5%) and management forecasts for a projection period of up to five years, followed by an assumed annual long-term growth rate of 3.0% (2017: 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 £183.9 million (2017: £27.1 million) primarily relates to a charge of £148.0 million on VMLY&R, driven by challenges in the advertising businesses in the Advertising and Media Investment Management segment. The recoverable amount for the VMLY&R cash-generating unit is £1,327.3 million. It is based on a value in use calculation, assuming a pre-tax discount rate of 8.7% specific to VMLY&R. A pre-tax discount rate of 8.5% was used in the prior year. The cash-generating unit includes goodwill, intangible assets, and other assets. The remaining £35.9 million relates to a number of under-performing businesses in the Group. 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.

The VMLY&R impairment review is sensitive to changes in the assumptions used, most notably to changes in the discount rate, terminal growth rate and terminal margin. A summary of the movements in the impairment charge from a change in these assumptions is as follows:

- 0.1% movement in the discount rate would increase or decrease the impairment charge by £23 million;
- 0.1% movement in the terminal growth rate would increase or decrease the impairment charge by £19 million; and
- 0.1% movement in terminal margin would increase or decrease the impairment charge by £8 million.

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. For the 2018 impairment review, certain assets previously aggregated with the VMLY&R cash-generating unit have been realigned to other cash-generating units as part of the overall effort to simplify operations and become more client-centric. Changes in our business activities or structure may also result in additional 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, except for VMLY&R as discussed above. The carrying value of goodwill and other intangible assets will continue to be reviewed at least annually for impairment and adjusted down to the recoverable amount if required.

13. PROPERTY, PLANT AND EQUIPMENT

The movements in 2018 and 2017 were as follows:

	Land £m	Freehold buildings £m	Leasehold buildings £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost:						
1 January 2017	37.1	126.4	1,012.5	402.6	743.4	2,322.0
Additions	–	4.3	165.0	31.7	87.9	288.9
New acquisitions	–	–	2.0	2.4	1.1	5.5
Disposals	–	(1.2)	(46.1)	(40.7)	(54.6)	(142.6)
Exchange adjustments	–	(10.7)	(51.6)	(18.8)	(74.8)	(155.9)
31 December 2017	37.1	118.8	1,081.8	377.2	703.0	2,317.9
Additions	–	17.7	161.4	49.9	85.8	314.8
New acquisitions	–	0.1	0.9	1.2	0.9	3.1
Disposals	–	–	(83.5)	(62.9)	(109.3)	(255.7)
Exchange adjustments	–	(1.1)	41.8	9.9	10.0	60.6
31 December 2018	**37.1**	**135.5**	**1,202.4**	**375.3**	**690.4**	**2,440.7**
Depreciation:						
1 January 2017	–	25.2	509.8	240.0	578.3	1,353.3
Charge for the year	–	6.9	86.7	47.0	90.1	230.7
Disposals	–	(1.9)	(42.6)	(35.9)	(54.4)	(134.8)
Exchange adjustments	–	(1.7)	(27.8)	(14.2)	(67.1)	(110.8)
31 December 2017	–	28.5	526.1	236.9	546.9	1,338.4
Charge for the year	–	3.1	91.5	44.4	86.1	225.1
Disposals	–	–	(74.6)	(58.0)	(107.9)	(240.5)
Exchange adjustments	–	(4.5)	24.3	6.4	8.5	34.7
31 December 2018	**–**	**27.1**	**567.3**	**229.7**	**533.6**	**1,357.7**
Net book value:						
31 December 2018	**37.1**	**108.4**	**635.1**	**145.6**	**156.8**	**1,083.0**
31 December 2017	37.1	90.3	555.7	140.3	156.1	979.5
1 January 2017	37.1	101.2	502.7	162.6	165.1	968.7

At 31 December 2018, capital commitments contracted, but not provided for in respect of property, plant and equipment were £28.4 million (2017: £137.2 million).

14. INTERESTS IN ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS

The movements in 2018 and 2017 were as follows:

	Interests in associates and joint ventures £m	Other investments £m
1 January 2017	1,069.4	1,310.3
Additions	34.5	67.7
Share of results of associate undertakings (note 4)	113.5	–
Dividends	(46.8)	–
Other movements	3.4	–
Reclassification from other investments to associates	57.1	(57.1)
Exchange adjustments	(10.6)	(106.1)
Disposals	(139.1)	(1.7)
Reclassification to subsidiaries	(6.3)	–
Revaluation of other investments	–	32.1
Amortisation of other intangible assets	(5.7)	–
Write-downs	(4.2)	(91.7)
31 December 2017	1,065.2	1,153.5
Additions	16.7	35.0
Share of results of associate undertakings (note 4)	43.5	–
Dividends	(49.7)	–
Other movements	1.2	–
Reclassification from other investments to associates	0.3	(0.3)
Exchange adjustments	12.9	–
Disposals	(304.0)	(341.7)
Reclassification to subsidiaries	16.9	–
Revaluation of other investments through profit or loss	–	68.1
Revaluation of other investments through other comprehensive income	–	(247.9)
Amortisation of other intangible assets	(4.2)	–
Write-downs	(2.0)	–
31 December 2018	**796.8**	**666.7**

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.

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 2018 included:

	% owned	Country of incorporation
Barrows Design and Manufacturing (Pty) Limited	35.0	South Africa
Chime Communications Ltd	24.9	UK
CVSC Sofres Media Co Limited	40.0	China
Dat Viet VAC Media Corporation	30.0	Vietnam
GIIR Inc	30.0	Korea
Haworth Marketing & Media Company	49.0	USA
High Co SA	34.1	France
Imagina	22.5	Spain
Marktest Investimentos SGPS S.A.	40.0	Portugal
Nanjing Yindu Ogilvy Advertising Co. Ltd	49.0	China
Richard Attias and Associates[1]	49.0	USA
Smollan Holdings (Pty) Ltd	24.8	South Africa

Note

[1] The Group sold its shareholding in Richard Attias and Associates in January 2019.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2018 was as follows: GIIR Inc: £26.3 million, and High Co SA: £30.3 million (2017: GIIR Inc: £35.4 million and High Co SA: £33.3 million).

The carrying value (including goodwill and other intangibles) of these equity interests in the Group's consolidated balance sheet at 31 December 2018 was as follows: GIIR Inc: £46.8 million and High Co SA: £37.1 million (2017: GIIR Inc: £41.6 million and High Co SA: £34.5 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 2018.

	2018 £m	2017 £m	2016 £m
Income statement			
Revenue	**3,685.8**	3,800.8	2,254.5
Operating profit	**378.4**	440.4	308.3
Profit before taxation	**194.7**	381.9	237.2
Profit for the year	**118.1**	312.5	156.7

Balance sheet			
Assets	**2,940.9**	3,192.9	4,223.1
Liabilities	**(1,570.6)**	(1,633.7)	(1,900.0)
Net assets	**1,370.3**	1,559.2	2,323.1

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

At 31 December 2018, capital commitments contracted, but not provided for in respect of interests in associates and other investments were £31.4 million (2017: £54.2 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 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.

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 2018 £m	Offset 2018 £m	**As reported 2018 £m**	Gross 2017 £m	Offset 2017 £m	As reported 2017 £m
Deferred tax assets	412.0	(259.0)	**153.0**	411.8	(251.5)	160.3
Deferred tax liabilities	(738.5)	259.0	**(479.5)**	(765.2)	251.5	(513.7)
	(326.5)	–	**(326.5)**	(353.4)	–	(353.4)

The following are the major gross deferred tax assets recognised by the Group and movements thereon in 2018 and 2017:

	Deferred compensation £m	Accounting provisions and accruals £m	Retirement benefit obligations £m	Property, plant and equipment £m	Tax losses and credits £m	Share-based payments £m	Restructuring provisions £m	Other temporary differences £m	Total £m
1 January 2017	95.6	80.6	141.4	70.8	89.7	75.8	5.9	38.2	598.0
Acquisition of subsidiaries	–	–	–	–	–	–	–	2.6	2.6
(Charge)/credit to income	(5.5)	6.6	(10.2)	6.9	(34.4)	(0.4)	(1.5)	(21.7)	(60.2)
Impact of US tax reform	(30.8)	(8.1)	(29.1)	(6.8)	23.1	(10.9)	1.6	(1.1)	(62.1)
Charge to other comprehensive income	–	–	(20.9)	–	–	–	–	–	(20.9)
Charge to equity	–	–	–	–	–	(27.3)	–	–	(27.3)
Exchange differences	(5.8)	5.8	(5.6)	(2.5)	(5.7)	(4.2)	(0.2)	(0.1)	(18.3)
31 December 2017	53.5	84.9	75.6	68.4	72.7	33.0	5.8	17.9	411.8
Acquisition of subsidiaries	–	–	–	–	–	–	–	2.0	2.0
Credit/(charge) to income	4.7	13.0	(11.2)	(20.6)	(8.9)	(15.3)	10.7	11.0	(16.6)
Charge to other comprehensive income	–	–	(0.2)	–	–	–	–	–	(0.2)
Charge to equity	–	–	–	–	–	(1.6)	–	–	(1.6)
Exchange differences	3.4	3.5	4.3	0.1	3.3	0.7	0.8	0.5	16.6
31 December 2018	**61.6**	**101.4**	**68.5**	**47.9**	**67.1**	**16.8**	**17.3**	**31.4**	**412.0**

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. At 31 December 2018 the balance related to temporary differences in relation to revenue adjustments, tax deductible goodwill, fair value adjustments, and other temporary differences.

In addition the Group has recognised the following gross deferred tax liabilities and movements thereon in 2018 and 2017:

	Brands and other intangibles £m	Associate earnings £m	Goodwill £m	Property, plant and equipment £m	Financial instruments £m	Other temporary differences £m	Total £m
1 January 2017	755.9	28.3	232.5	36.2	64.0	33.1	1,150.0
Acquisition of subsidiaries	21.4	–	–	–	–	–	21.4
(Credit)/charge to income	(49.9)	(6.0)	0.7	(0.5)	(3.3)	5.1	(53.9)
Impact of US tax reform	(203.8)	–	(76.3)	(11.9)	(22.2)	18.0	(296.2)
Charge to other comprehensive income	–	–	–	–	–	3.7	3.7
Exchange differences	(34.4)	(0.7)	(16.5)	(2.6)	(2.3)	(3.3)	(59.8)
31 December 2017	489.2	21.6	140.4	21.2	36.2	56.6	765.2
Acquisition of subsidiaries	10.7	–	–	–	–	–	10.7
(Credit)/charge to income	(68.8)	(3.9)	31.8	(0.3)	(0.9)	(20.7)	(62.8)
Charge to other comprehensive income	–	–	–	–	–	0.5	0.5
Exchange differences	7.5	(0.1)	10.1	1.3	4.6	1.5	24.9
31 December 2018	**438.6**	**17.6**	**182.3**	**22.2**	**39.9**	**37.9**	**738.5**

At the balance sheet date, the Group has gross tax losses and other temporary differences of £6,638.6 million (2017: £6,208.6 million) available for offset against future profits. Deferred tax assets have been recognised in respect of the tax benefit of £1,763.4 million (2017: £1,539.3 million) of such tax losses and other temporary differences. No deferred tax asset has been recognised in respect of the remaining £4,875.2 million (2017: £4,669.3 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 £46.4 million (2017: £56.5 million) that will expire within 1–10 years, and £4,572.6 million (2017: £4,421.5 million) of losses that may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was £1,768.5 million (2017: £3,898.0 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. TRADE AND OTHER RECEIVABLES

The following are included in trade and other receivables:

Amounts falling due within one year:

	2018 £m	2017[1] £m
Trade receivables (net of bad debt provision)	**8,062.2**	7,889.7
Work in progress	**366.5**	401.1
VAT and sales taxes recoverable	**264.2**	202.3
Prepayments	**287.3**	298.3
Accrued income	**3,541.2**	3,205.8
Fair value of derivatives	**1.3**	1.0
Other debtors	**578.8**	532.5
	13,101.5	12,530.7

Note

[1] Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

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

			Past due but not impaired				
2018	Carrying amount at 31 December 2018 £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
Trade receivables	8,062.2	5,873.7	1,370.7	549.1	128.3	75.6	64.8
Other financial assets	551.7	424.9	61.3	14.2	8.6	7.7	35.0
	8,613.9	6,298.6	1,432.0	563.3	136.9	83.3	99.8

			Past due but not impaired				
2017	Carrying amount at 31 December 2017 £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
Trade receivables	7,889.7	5,466.6	1,629.6	577.0	143.0	48.8	24.7
Other financial assets	500.4	331.2	107.0	6.6	4.7	10.3	40.6
	8,390.1	5,797.8	1,736.6	583.6	147.7	59.1	65.3

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:

	2018 £m	2017 £m
Prepayments	**3.0**	3.6
Accrued income	**16.5**	20.5
Fair value of derivatives	**8.4**	2.1
Other debtors	**152.1**	150.0
	180.0	176.2

The Group has applied the practical expedient permitted by IFRS 15 to not disclose the transaction price allocated to performance obligations unsatisfied (or partially unsatisfied) as of the end of the reporting period as contracts typically have an original expected duration of a year or less.

Bad debt provisions:

	2018 £m	2017 £m
At beginning of year	**91.3**	93.8
New acquisitions	**1.5**	1.2
Charged to the income statement	**66.7**	27.4
Released to the income statement	**(11.6)**	(8.4)
Exchange adjustments	**2.1**	(4.1)
Utilisations and other movements	**(33.4)**	(18.6)
At end of year	**116.6**	91.3

The allowance for bad and doubtful debts is equivalent to 1.4% (2017: 1.1%) of gross trade accounts receivables.

The requirement to use an expected loss method of impairment of financial assets on adoption of IFRS 9 on 1 January 2018 did not have a material impact on the Group. The Group has applied the simplified approach to measuring expected credit losses, as permitted by IFRS 9, and recognises a loss allowance based on the financial asset's lifetime expected credit loss. Based on the aging of the invoice, the loss allowance at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) is as follows:

31 December 2018	£m	0-90 days £m	91-180 days £m	181 days-1 year £m	Over 1 year £m
Gross trade receivables	8,178.9	7,621.9	381.5	86.5	89.0
Loss allowance	116.6	11.3	3.8	39.2	62.3
Expected loss rate	1.4%	0.1%	1.0%	45.3%	70.0%

1 January 2018	£m	0-90 days £m	91-180 days £m	181 days-1 year £m	Over 1 year £m
Gross trade receivables	7,981.0	7,392.6	425.6	78.6	84.2
Loss allowance	91.3	2.9	2.8	24.2	61.4
Expected loss rate	1.1%	0.0%	0.7%	30.8%	73.0%

Impairment losses on work in progress and accrued income were immaterial for the years presented.

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

17. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

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

	2018 £m	2017 £m
Trade payables	**10,524.3**	9,893.0
Deferred income	**1,253.6**	1,212.1
Payments due to vendors (earnout agreements)	**148.2**	180.7
Liabilities in respect of put option agreements with vendors	**36.8**	38.6
Fair value of derivatives	**2.6**	3.5
Other creditors and accruals	**3,072.9**	2,913.2
	15,038.4	14,241.1

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

18. 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:

	2018 £m	2017 £m
Payments due to vendors (earnout agreements)	**266.5**	450.0
Liabilities in respect of put option agreements with vendors	**205.2**	219.5
Fair value of derivatives	**14.2**	3.3
Other creditors and accruals	**355.5**	320.0
	841.4	992.8

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 contingent consideration and the Directors' best estimates of future earnout-related obligations:

	2018 £m	2017 £m
Within one year	**148.2**	180.7
Between one and two years	**140.2**	128.3
Between two and three years	**38.5**	144.1
Between three and four years	**50.3**	58.3
Between four and five years	**20.4**	103.1
Over five years	**17.1**	16.2
	414.7	630.7

	2018 £m	2017 £m
At beginning of year	**630.7**	976.5
Earnouts paid (note 11)	**(120.2)**	(199.1)
New acquisitions	**48.6**	163.7
Revision of estimates taken to goodwill (note 12)	**(68.3)**	(60.7)
Revaluation of payments due to vendors (note 6)	**(82.6)**	(208.6)
Exchange adjustments	**6.5**	(41.1)
At end of year	**414.7**	630.7

As of 31 December 2018, 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 £179 million (2017: £nil to £228 million) and £nil to £1,960 million (2017: £nil to £1,910 million), respectively.

19. BANK OVERDRAFTS, BONDS AND BANK LOANS

Amounts falling due within one year:

	2018 £m	2017 £m
Bank overdrafts	**442.0**	393.2
Corporate bonds and bank loans	**583.1**	230.9
	1,025.1	624.1

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

Amounts falling due after more than one year:

	2018 £m	2017 £m
Corporate bonds and bank loans	**5,634.8**	6,250.4

The Group estimates that the fair value of corporate bonds is £5,965.7 million at 31 December 2018 (2017: £5,816.5 million). The fair values of the corporate bonds are based on quoted market prices.

The Group considers that the carrying amount of bank loans of £186.8 million (2017: £993.4 million) approximates their fair value.

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

	2018 £m	2017 £m
Within one year	**1,025.1**	624.1
Between one and two years	**423.8**	727.6
Between two and three years	**761.0**	421.0
Between three and four years	**609.8**	1,384.2
Between four and five years	**670.1**	356.6
Over five years	**3,170.1**	3,361.0
	6,659.9	6,874.5

20. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in 2018 and 2017 were as follows:

	Property £m	Other £m	Total £m
1 January 2017	58.5	169.4	227.9
Charged to the income statement	4.1	16.9	21.0
Acquisitions[1]	4.0	22.8	26.8
Utilised	(6.0)	(21.4)	(27.4)
Released to the income statement	(5.5)	(5.9)	(11.4)
Transfers	0.1	7.1	7.2
Exchange adjustments	(2.6)	(12.5)	(15.1)
31 December 2017	52.6	176.4	229.0
Charged to the income statement[2]	72.1	13.9	86.0
Acquisitions[1]	0.5	8.3	8.8
Utilised	(5.7)	(20.1)	(25.8)
Released to the income statement	(5.7)	(4.6)	(10.3)
Transfers	2.0	10.9	12.9
Exchange adjustments	2.9	8.2	11.1
31 December 2018	**118.7**	**193.0**	**311.7**

Notes

1 Acquisitions include £8.4 million (2017: £21.9 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.

2 Amounts charged to the income statement in 2018 include £50.6 million in regard to transformation costs with respect to the strategic initiative of co-locations in major cities.

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.

21. SHARE-BASED PAYMENTS

Charges for share-based incentive plans were as follows:

	2018 £m	2017 £m	2016 £m
Share-based payments (note 5)	**84.8**	105.0	106.5

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

As of 31 December 2018, there was £146.0 million (2017: £156.0 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 25.

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:

EXECUTIVE PERFORMANCE SHARE PLAN (EPSP)

This scheme is intended to reward and incentivise the most senior executives of the Group. The performance period is five complete financial years, commencing with the financial year in which the award is granted. The vest date will usually be 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 shareholders' equity. Threshold performance ranges between 10–14% average annual ROE and maximum performance ranges between 14–18%, with a sliding scale in between. Threshold again gives rise to a 20% vest, 100% for maximum, with a sliding scale in between.

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 approximately 1,800 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 25, 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. EPSP is subject to a number of performance conditions, including TSR, a market-based condition.

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

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

Movement on ordinary shares granted for significant restricted stock plans:

	Non-vested 1 January 2018 number m	Granted number m	Lapsed number m	Vested number m	**Non-vested 31 December 2018 number m**
Executive Performance Share Plan (EPSP)	9.1	0.7	(1.1)	(2.0)	**6.7**
Performance Share Awards (PSA)	1.9	1.4	(0.1)	(0.9)	**2.3**
Leaders, Partners and High Potential Group	6.8	4.8	(0.7)	(1.8)	**9.1**
Weighted average fair value (pence per share):					
Executive Performance Share Plan (EPSP)	1,368p	814p	1,500p	1,122p	**1,363p**
Performance Share Awards (PSA)	1,659p	1,202p	1,522p	1,517p	**1,437p**
Leaders, Partners and High Potential Group	1,502p	806p	1,472p	1,426p	**1,154p**

The total fair value of shares vested for all the Group's restricted stock plans during the year ended 31 December 2018 was £107.2 million (2017: £114.8 million, 2016: £116.8 million).

22. 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:

	2018 £m	2017 £m	2016 £m
Defined contribution plans	**172.3**	175.9	153.5
Defined benefit plans charge to operating profit	**18.9**	16.1	24.6
Pension costs (note 5)	**191.2**	192.0	178.1
Net interest expense on pension plans (note 6)	**4.4**	6.3	6.7
	195.6	198.3	184.8

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 2018.

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 2018 amounted to £44.9 million (2017: £68.2 million, 2016: £43.7 million). Employer contributions and benefit payments in 2019 are expected to be approximately £50 million.

(A) ASSUMPTIONS

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

	2018 % pa	2017 % pa	2016 % pa	2015 % pa
UK				
Discount rate[1]	**2.8**	2.4	2.5	3.7
Rate of increase in salaries[2]	**n/a**	n/a	3.5	3.1
Rate of increase in pensions in payment	**4.3**	4.1	4.1	3.9
Inflation	**2.8**	2.7	2.8	2.4
North America				
Discount rate[1]	**4.1**	3.5	3.8	4.0
Rate of increase in salaries	**3.0**	3.1	3.1	3.0
Inflation	**n/a**	4.0	4.0	2.5
Western Continental Europe				
Discount rate[1]	**2.0**	1.9	1.7	2.5
Rate of increase in salaries	**2.3**	1.9	2.0	2.3
Rate of increase in pensions in payment	**1.2**	1.2	1.3	1.6
Inflation	**1.7**	1.7	1.7	2.0
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe				
Discount rate[1]	**5.0**	4.2	4.2	4.2
Rate of increase in salaries	**5.8**	5.5	5.9	5.8
Inflation	**3.6**	4.0	4.0	4.0

Notes

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.

2 The salary assumptions are no longer applicable to the UK as all plans were frozen since 2017. Active participants will not accrue additional benefits for future services under these plans.

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 2018, 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	22.2	22.1	23.2	21.1	17.0
– current pensioners (at age 65) – female	23.9	23.6	24.3	24.0	21.4
– future pensioners (current age 45) – male	24.0	23.7	24.8	23.5	17.0
– future pensioners (current age 45) – female	25.7	25.2	26.1	26.2	21.4

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

The life expectancies after age 65 at 31 December 2017 were 22.4 years and 24.0 years for male and female current pensioners (at age 65), respectively, and 23.8 years and 25.7 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)	**11.8**	**8.5**	**14.2**	**15.7**	**8.2**
Expected benefit payments over the next 10 years (£m)					
Benefits expected to be paid within 12 months	67.2	36.3	16.4	9.3	5.1
Benefits expected to be paid in 2020	58.4	34.3	12.9	8.6	2.5
Benefits expected to be paid in 2021	58.3	33.7	12.8	8.6	3.1
Benefits expected to be paid in 2022	59.1	33.6	12.7	9.1	3.6
Benefits expected to be paid in 2023	56.6	30.4	12.9	9.4	3.9
Benefits expected to be paid in the next five years	276.6	131.0	66.1	52.8	26.6

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

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

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

Sensitivity analysis of significant actuarial assumptions	Increase/(decrease) in benefit obligation 2018 £m	2017 £m
Discount rate		
Increase by 25 basis points		
UK	**(9.8)**	(13.1)
North America	**(8.8)**	(9.9)
Western Continental Europe	**(8.7)**	(9.2)
Other[1]	**(0.7)**	(0.6)
Decrease by 25 basis points		
UK	**10.3**	13.8
North America	**9.1**	10.2
Western Continental Europe	**9.3**	9.8
Other[1]	**0.7**	0.6
Rate of increase in salaries		
Increase by 25 basis points		
North America	**–**	0.1
Western Continental Europe	**1.3**	1.5
Other[1]	**0.7**	0.6
Decrease by 25 basis points		
North America	**–**	(0.1)
Western Continental Europe	**(1.2)**	(1.5)
Other[1]	**(0.6)**	(0.6)
Rate of increase in pensions in payment		
Increase by 25 basis points		
UK	**1.3**	2.4
Western Continental Europe	**5.3**	6.2
Decrease by 25 basis points		
UK	**(0.8)**	(1.9)
Western Continental Europe	**(5.0)**	(5.8)
Life expectancy		
Increase in longevity by one additional year		
UK	**13.6**	16.9
North America	**5.7**	6.0
Western Continental Europe	**6.9**	7.0

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:

	2018 £m	%	2017 £m	%	2016 £m	%
Equities	**76.5**	**9.1**	124.6	13.4	161.9	17.3
Bonds	**544.9**	**64.8**	520.0	55.9	566.0	60.6
Insured annuities	**90.9**	**10.8**	178.5	19.2	63.5	6.8
Property	**0.9**	**0.1**	1.3	0.1	1.6	0.2
Cash	**31.1**	**3.7**	9.9	1.1	44.9	4.8
Other	**96.3**	**11.5**	95.7	10.3	96.3	10.3
Total fair value of assets	**840.6**	**100.0**	930.0	100.0	934.2	100.0
Present value of liabilities	**(1,024.0)**		(1,135.4)		(1,209.8)	
Deficit in the plans	**(183.4)**		(205.4)		(275.6)	
Irrecoverable surplus	**(0.9)**		(0.9)		(0.9)	
Net liability[1]	**(184.3)**		(206.3)		(276.5)	
Plans in surplus	**42.8**		43.9		28.0	
Plans in deficit	**(227.1)**		(250.2)		(304.5)	

Note
[1] 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.

Surplus/(deficit) in plans by region	2018 £m	2017 £m	2016 £m
UK	**33.7**	31.5	20.0
North America	**(68.7)**	(89.2)	(133.8)
Western Continental Europe	**(104.6)**	(107.7)	(116.9)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**(43.8)**	(40.0)	(44.9)
Deficit in the plans	**(183.4)**	(205.4)	(275.6)

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.

	2018 Surplus/ (deficit) £m	2018 Present value of liabilities £m	2017 Surplus/ (deficit) £m	2017 Present value of liabilities £m	2016 Surplus/ (deficit) £m	2016 Present value of liabilities £m
Funded plans by region						
UK	**33.7**	**(290.5)**	31.5	(387.5)	20.0	(406.4)
North America	**(4.6)**	**(375.3)**	(21.4)	(385.4)	(56.0)	(420.4)
Western Continental Europe	**(35.8)**	**(168.4)**	(37.9)	(173.3)	(48.9)	(180.9)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**(6.6)**	**(19.7)**	(4.2)	(15.8)	(5.8)	(17.2)
Deficit/liabilities in the funded plans	**(13.3)**	**(853.9)**	(32.0)	(962.0)	(90.7)	(1,024.9)
Unfunded plans by region						
UK	**–**	**–**	–	–	–	–
North America	**(64.1)**	**(64.1)**	(67.8)	(67.8)	(77.8)	(77.8)
Western Continental Europe	**(68.8)**	**(68.8)**	(69.8)	(69.8)	(68.0)	(68.0)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**(37.2)**	**(37.2)**	(35.8)	(35.8)	(39.1)	(39.1)
Deficit/liabilities in the unfunded plans	**(170.1)**	**(170.1)**	(173.4)	(173.4)	(184.9)	(184.9)
Deficit/liabilities in the plans	**(183.4)**	**(1,024.0)**	(205.4)	(1,135.4)	(275.6)	(1,209.8)

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):

	2018 £m	2017 £m	2016 £m
Service cost[1]	**15.5**	13.0	22.4
Administrative expenses	**3.4**	3.1	2.2
Charge to operating profit	**18.9**	16.1	24.6
Net interest expense on pension plans	**4.4**	6.3	6.7
Charge to profit before taxation for defined benefit plans	**23.3**	22.4	31.3
Return on plan assets (excluding interest income)	**(43.9)**	13.4	66.3
Changes in demographic assumptions underlying the present value of the plan liabilities	**3.8**	12.7	6.7
Changes in financial assumptions underlying the present value of the plan liabilities	**45.2**	(17.0)	(92.6)
Experience gain arising on the plan liabilities	**3.8**	7.9	1.0
Change in irrecoverable surplus	**–**	–	2.7
Actuarial gain/(loss) recognised in OCI	**8.9**	17.0	(15.9)

Note

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

(D) MOVEMENT IN PLAN LIABILITIES

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

	2018 £m	2017 £m	2016 £m
Plan liabilities at beginning of year	**1,135.4**	1,209.8	1,039.9
Service cost[1]	**15.5**	13.0	22.4
Interest cost	**30.7**	32.9	37.2
Actuarial (gain)/loss			
Effect of changes in demographic assumptions	**(3.8)**	(12.7)	(6.7)
Effect of changes in financial assumptions	**(45.2)**	17.0	92.6
Effect of experience adjustments	**(3.8)**	(7.9)	(1.0)
Benefits paid	**(75.6)**	(79.7)	(92.4)
Loss/(gain) due to exchange rate movements	**30.0**	(36.4)	124.2
Settlement payments[2]	**(70.4)**	(1.2)	(4.8)
Other[3]	**11.2**	0.6	(1.6)
Plan liabilities at end of year	**1,024.0**	1,135.4	1,209.8

Notes

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

2 In 2018, the Group completed the transfer of the defined benefit obligations for certain UK plans to an insurer resulting in £70.4 million settlement payments.

3 Other includes acquisitions, disposals, 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:

	2018 £m	2017 £m	2016 £m
Fair value of plan assets at beginning of year	**930.0**	934.2	814.2
Interest income on plan assets	**26.3**	26.6	30.5
Return on plan assets (excluding interest income)	**(43.9)**	13.4	66.3
Employer contributions	**44.9**	68.2	43.7
Benefits paid	**(75.6)**	(79.7)	(92.4)
Gain/(loss) due to exchange rate movements	**23.0**	(28.7)	78.8
Settlement payments[1]	**(70.4)**	(1.2)	(4.8)
Administrative expenses	**(3.4)**	(3.1)	(2.2)
Other[2]	**9.7**	0.3	0.1
Fair value of plan assets at end of year	**840.6**	930.0	934.2
Actual return on plan assets	**(17.6)**	40.0	96.8

Notes

1 In 2018, the Group completed the transfer of the defined benefit obligations for certain UK plans to an insurer resulting in £70.4 million settlement payments.

2 Other includes acquisitions, disposals, 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.

23. RISK MANAGEMENT POLICIES

FOREIGN CURRENCY RISK

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

The Group effects these currency net asset hedges by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars, pounds sterling and euros. The Group's borrowings at 31 December 2018 were primarily made up of $2,784 million, £1,044 million and €3,200 million (2017: $3,931 million, £600 million and €3,202 million). The Group's average gross debt during the course of 2018 was $3,377 million, £1,039 million and €3,202 million (2017: $3,741 million, £1,242 million and €3,108 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, 52.9% of the year-end US dollar debt is at fixed rates averaging 4.58% for an average period of 181 months; 47.1% of the year-end US dollar debt is at floating rates averaging 4.77% for an average period of 39 months; 100% of the sterling debt is at a fixed rate of 3.43% for an average period of 232 months; 84.4% of the euro debt is at fixed rates averaging 1.99% for an average period of 75 months and 15.6% of the euro debt is at floating rates averaging 0.05% for an average of 28 months.

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. The potential impact of Brexit has been considered and is not deemed to have a significant effect on this assessment.

At 31 December 2018, the Group has access to £8.4 billion of committed facilities with maturity dates spread over the years 2019 to 2046 as illustrated below:

		2019 £m	2020 £m	2021 £m	2022 £m	2023+ £m
£ bonds £400m (2.875% '46)	**400.0**					400.0
US bond $450m (5.625% '43)	**353.3**					353.3
US bond $272m (5.125% '42)	**213.1**					213.1
Eurobonds €600m (1.625% '30)	**539.1**					539.1
Eurobonds €750m (2.25%,'26)	**673.9**					673.9
Eurobonds €500m (1.375% '25)	**449.2**					449.2
US bond $750m (3.75%,'24)	**588.4**					588.4
Eurobonds €750m (3.0% '23)	**673.9**					673.9
US bond $500m (3.625% '22)	**392.3**				392.3	
Eurobonds €250m (3m EURIBOR + 0.45% '22)	**224.6**				224.6	
US bond $812m (4.75% '21)	**637.4**			637.4		
Bank revolver ($2,500m '21)	**1,961.4**			1,961.4		
Bank revolver (A$150m '19, A$370m '21)	**287.3**	82.9		204.4		
£ bonds £200m (6.375% '20)	**200.0**		200.0			
Eurobonds €250m (3m EURIBOR + 0.32% '20)	**224.6**		224.6			
Eurobonds €600m (0.75% '19)	**539.1**	539.1				
Total committed facilities available	**8,357.6**	**622.0**	**424.6**	**2,803.2**	**616.9**	**3,890.9**
Drawn down facilities at 31 December 2018	**6,282.9**	571.1	424.6	779.4	616.9	3,890.9
Undrawn committed credit facilities	**2,074.7**					
Drawn down facilities at 31 December 2018	**6,282.9**					
Cash and cash equivalents at 31 December 2018	**(2,201.2)**					
Other adjustments	**(65.0)**					
Net debt at 31 December 2018	**4,016.7**					

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 25 and 26.

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 24.

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 expected losses, 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 5% of total trade receivables as at 31 December 2018.

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. Clients can reduce their marketing spend, terminate contracts, or cancel projects on short notice. The loss of one or more of our largest clients, if not replaced by new accounts or an increase in business from existing clients, would adversely affect our financial condition.

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

At 31 December 2018, the Group's major foreign currency denominated borrowings are held in individual entities with the same financial reporting currencies as borrowings. Therefore a weakening or strengthening of sterling against the Group's major currencies would not result in any gains or losses being posted directly to equity and there would be no profit before tax impact.

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 2018 would increase profit before tax by approximately £7.2 million (2017: £0.2 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.

24. 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.

The Group designates its foreign currency-denominated debt as hedging instruments against the currency risk associated with the translation of its foreign operations. Contracts due in March 2025 have receipts of €500.0 million and payments of £444.1 million.

At 31 December 2018, the fair value of the Group's currency derivatives is estimated to be a net asset of approximately £8.4 million (2017: £nil). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £8.4 million (2017: £nil) assets included in trade and other receivables and £nil (2017: £nil) 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 £17.9 million (2017: £nil) for cash flow hedges.

Changes in the fair value relating to the ineffective portion of the currency derivatives amounted to a loss of £11.1 million (2017: £nil) which is included in the revaluation of financial instruments for the year. This loss resulted from a £6.8 million gain on hedging instruments and a £17.9 million loss on hedged items.

At the balance sheet date, the total nominal amount of outstanding forward foreign exchange contracts not designated as hedges was £296.1 million (2017: £177.7 million). The Group estimates the fair value of these contracts to be a net liability of £1.3 million (2017: £2.5 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 3.63% until September 2022 and have floating interest payments averaging LIBOR plus 1.52%. 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%.

The fair value of interest rate swaps entered into at 31 December 2018 is estimated to be a net liability of £14.2 million (2017: £1.2 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £nil (2017: £2.1 million) assets included in trade and other receivables and £14.2 million (2017: £3.3 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 £0.9 million (2017: £2.8 million) which is included in the revaluation of financial instruments for the year. This gain resulted from a £9.9 million loss on hedging instruments and a £10.8 million gain on hedged items.

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

Classification under IFRS 9	Derivatives in designated hedge relationships £m	Held at fair value through profit or loss £m	Held at fair value through other comprehen-sive income £m	Amortised cost £m	Carrying value £m
2018					
Other investments	–	319.6	347.1	–	666.7
Cash and short-term deposits	–	–	–	2,643.2	2,643.2
Bank overdrafts, bonds and bank loans	–	–	–	(1,025.1)	(1,025.1)
Bonds and bank loans	–	–	–	(5,634.8)	(5,634.8)
Trade and other receivables: amounts falling due within one year	–	–	–	8,545.6	8,545.6
Trade and other receivables: amounts falling due after more than one year	–	–	–	68.3	68.3
Trade and other payables: amounts falling due within one year	–	–	–	(10,637.3)	(10,637.3)
Trade and other payables: amounts falling due after more than one year	–	–	–	(8.4)	(8.4)
Derivative assets	8.4	1.3	–	–	9.7
Derivative liabilities	(14.2)	(2.6)	–	–	(16.8)
Payments due to vendors (earnout agreements) (note 18)	–	(414.7)	–	–	(414.7)
Liabilities in respect of put options	–	(242.0)	–	–	(242.0)
	(5.8)	**(338.4)**	**347.1**	**(6,048.5)**	**(6,045.6)**

Classification under IAS 39	Derivatives in designated hedge relationships £m	Held for trading £m	Loans and receivables £m	Available for sale £m	Amortised cost £m	Carrying value £m
2017						
Other investments	–	–	–	1,153.5	–	1,153.5
Cash and short-term deposits	–	–	2,391.4	–	–	2,391.4
Bank overdrafts, bonds and bank loans	–	–	–	–	(624.1)	(624.1)
Bonds and bank loans	–	–	–	–	(6,250.4)	(6,250.4)
Trade and other receivables: amounts falling due within one year	–	–	8,328.4	–	–	8,328.4
Trade and other receivables: amounts falling due after more than one year	–	–	61.7	–	–	61.7
Trade and other payables: amounts falling due within one year	–	–	–	–	(9,970.5)	(9,970.5)
Trade and other payables: amounts falling due after more than one year	–	–	–	–	(8.5)	(8.5)
Derivative assets	2.1	1.0	–	–	–	3.1
Derivative liabilities	(3.3)	(3.5)	–	–	–	(6.8)
Payments due to vendors (earnout agreements) (note 18)	–	(630.7)	–	–	–	(630.7)
Liabilities in respect of put options	–	(258.1)	–	–	–	(258.1)
	(1.2)	(891.3)	10,781.5	1,153.5	(16,853.5)	(5,811.0)

The Group adopted IFRS 9 on 1 January 2018 resulting in cash and short-term deposits and trade and other receivables being reclassified from loans and receivables to amortised cost. Other investments of £1,153.5 million classified as available for sale at 31 December 2017 were reclassified as held at fair value through other comprehensive income (£835.1 million) and fair value through profit or loss (£318.4 million). There have been no material changes in the carrying amounts of financial assets and financial liabilities arising from the adoption of IFRS 9.

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

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

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie 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
2018			
Derivatives in designated hedge relationships			
Derivative assets	–	8.4	–
Derivative liabilities	–	(14.2)	–
Held at fair value through profit or loss			
Other investments	0.4	–	319.2
Derivative assets	–	1.3	–
Derivative liabilities	–	(2.6)	–
Payments due to vendors (earnout agreements) (note 18)	–	–	(414.7)
Liabilities in respect of put options	–	–	(242.0)
Held at fair value through other comprehensive income			
Other investments	128.1	–	219.0

	Level 1 £m	Level 2 £m	Level 3 £m
2017			
Derivatives in designated hedge relationships			
Derivative assets	–	2.1	–
Derivative liabilities	–	(3.3)	–
Held for trading			
Derivative assets	–	1.0	–
Derivative liabilities	–	(3.5)	–
Payments due to vendors (earnout agreements) (note 18)	–	–	(630.7)
Liabilities in respect of put options	–	–	(258.1)
Available for sale			
Other investments	333.2	–	820.3

There have been no transfers between these levels in the periods presented

Reconciliation of level 3 fair value measurements[1]:

	Liabilities in respect of put options £m	Other investments £m
1 January 2017	(297.0)	881.0
Gains/(losses) recognised in the income statement	52.5	(13.8)
Gains recognised in other comprehensive income	–	15.1
Exchange adjustments	7.5	(70.9)
Additions	(40.5)	67.7
Disposals	–	(1.7)
Cancellations	2.9	–
Reclassifications from other investments to interests in associates	–	(57.1)
Settlements	16.5	–
31 December 2017	(258.1)	820.3
Gains recognised in the income statement	34.5	61.1
Losses recognised in other comprehensive income	–	(140.6)
Exchange adjustments	1.1	–
Additions	(43.5)	35.0
Disposals	–	(237.3)
Cancellations	2.2	–
Reclassifications from other investments to interests in associates	–	(0.3)
Settlements	21.8	–
31 December 2018	**(242.0)**	**538.2**

Note

1 The reconciliation of payments due to vendors (earnout agreements) is presented in note 18.

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. There have been no movements between level 3 and other levels.

PAYMENTS DUE TO VENDORS AND LIABILITIES IN RESPECT OF PUT OPTIONS

Future anticipated payments due to vendors in respect of contingent consideration (earnout agreements) are recorded at fair value, which is the present value of the expected cash outflows of the obligations. Liabilities in respect of put option agreements are initially recorded at the present value of the redemption amount in accordance with IAS 32 and subsequently measured at fair value in accordance with IFRS 9. 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 2018, the weighted average growth rate in estimating future financial performance was 22.7% (2017: 25.0%), which reflects the prevalence of recent acquisitions in the faster-growing markets and new media sectors. The risk adjusted discount rate applied to these obligations at 31 December 2018 was 2.9% (2017: 1.8%).

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 £6.8 million (2017: £8.9 million) and £10.4 million (2017: £9.3 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 £7.1 million (2017: £11.2 million) and £7.2 million (2017: £11.4 million), respectively. An increase in the liability would result in a loss in the revaluation of financial instruments, while a decrease would result in a gain.

OTHER INVESTMENTS

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

25. AUTHORISED AND ISSUED SHARE CAPITAL

	Equity ordinary shares	Nominal value £m
Authorised		
1 January 2017	1,750,000,000	175.0
31 December 2017	1,750,000,000	175.0
31 December 2018	**1,750,000,000**	**175.0**
Issued and fully paid		
1 January 2017	1,331,880,730	133.2
Exercise of share options	630,822	0.1
31 December 2017	1,332,511,552	133.3
Exercise of share options	166,675	–
31 December 2018	**1,332,678,227**	**133.3**

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 104-119.

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 2018 was 14,820,994 (2017: 14,232,910), and £125.5 million (2017: £190.9 million) respectively. The number and market value of ordinary shares held in treasury at 31 December 2018 was 70,854,553 (2017: 62,578,938) and £599.9 million (2017: £839.2 million) respectively.

SHARE OPTIONS

WPP EXECUTIVE SHARE OPTION SCHEME

As at 31 December 2018, unexercised options over ordinary shares of 6,741 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
3,696	8.333	2015 – 2022
3,045	10.595	2016 – 2023

WPP WORLDWIDE SHARE OWNERSHIP PROGRAMME

As at 31 December 2018, unexercised options over ordinary shares of 3,187,979 and unexercised options over ADRs of 466,559 have been granted under the WPP Worldwide Share Ownership Programme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
28,275	5.483	2012–2019
18,000	5.483	2013–2019
750	5.608	2012–2019
95,000	6.268	2014–2021
44,125	6.268	2015–2021
61,625	7.113	2013–2020
30,250	7.113	2014–2020
233,129	8.458	2015–2022
52,000	13.145	2017–2021
1,959,975	13.145	2017–2024
4,750	13.145	2018–2024
642,975	13.505	2016–2023
17,125	13.505	2017–2023

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
11,855	44.560	2012–2019
29,025	49.230	2014–2021
19,200	56.560	2013–2020
44,964	67.490	2015–2022
195,890	102.670	2017–2024
165,625	110.760	2016–2023

WPP SHARE OPTION PLAN 2015

As at 31 December 2018, unexercised options over ordinary shares of 12,257,750 and unexercised options over ADRs of 1,286,670 have been granted under the WPP Share Option Plan 2015 as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
23,750	8.372	2021–2025
4,053,925	8.372	2021–2028
23,875	13.085	2020–2024
3,245,325	13.085	2020–2027
66,125	15.150	2018–2022
2,211,900	15.150	2018–2025
5,750	15.150	2019–2025
15,875	17.055	2019–2023
2,611,225	17.055	2019–2026

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
439,205	53.140	2021–2028
340,225	88.260	2020–2027
282,115	105.490	2020–2026
225,125	115.940	2018–2025

The aggregate status of the WPP Share Option Plans during 2018 was as follows:

Movements on options granted (represented in ordinary shares)

	1 January 2018	Granted	Exercised	Lapsed	Outstanding 31 December 2018	Exercisable 31 December 2018
WPP	6,741	–	–	–	6,741	6,741
WWOP	6,375,750	–	(166,675)	(688,301)	5,520,774	5,520,774
WSOP	14,602,950	6,301,400	–	(2,213,250)	18,691,100	3,403,650
	20,985,441	6,301,400	(166,675)	(2,901,551)	24,218,615	8,931,165

Weighted-average exercise price for options over

	1 January 2018	Granted	Exercised	Lapsed	Outstanding 31 December 2018	Exercisable 31 December 2018
Ordinary shares (£)						
WPP	9.355	–	–	–	9.355	9.355
WWOP	12.195	–	7.064	12.473	12.290	12.290
WSOP	14.929	8.372	–	14.818	12.753	15.150
ADRs ($)						
WWOP	94.752	–	57.031	99.731	95.453	95.453
WSOP	101.047	53.140	–	98.978	84.893	115.940

OPTIONS OVER ORDINARY SHARES

Outstanding

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
5.483 – 17.055	12.656	96

OPTIONS OVER ADRs

Outstanding

Range of exercise prices $	Weighted average exercise price $	Weighted average contractual life Months
44.560 – 115.940	87.703	93

As at 31 December 2018 there was £8.5 million (2017: £9.0 million) of total unrecognised compensation costs related to share options. That cost is expected to be recognised over a weighted average period of 20 months (2017: 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:

	2018	2017	2016
Fair value of UK options (shares)	**107.0p**	112.0p	135.0p
Fair value of US options (ADRs)	**$8.09**	$9.40	$9.94
Weighted average assumptions:			
UK Risk-free interest rate	**0.78%**	0.57%	0.44%
US Risk-free interest rate	**2.74%**	2.05%	1.60%
Expected life (months)	**48**	48	48
Expected volatility	**24%**	17%	16%
Dividend yield	**3.5%**	2.9%	2.8%

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

The average share price of the Group for the year ended 31 December 2018 was £11.56 (2017: £15.86, 2016: £16.45) and the average ADR price for the same period was $77.31 (2017: $101.86, 2016: $111.20).

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

In 2015, the Group introduced the Share Option Plan 2015 to replace both the 'all-employee' Worldwide Share Ownership Plan and the discretionary Executive Stock Option Plan. Two kinds of options over ordinary shares can be granted, both with a market value exercise price. Firstly, options can be granted to employees who have worked at a company owned by WPP plc for at least two years which are not subject to performance conditions. Secondly, options may be granted on a discretionary basis subject to the satisfaction of performance conditions.

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

The Executive Stock Option Plan has historically been open for participation to WPP Group Leaders, Partners and High Potential Group. It is not currently offered to Parent Company Executive Directors. The vesting period is three years and performance conditions include achievement of various TSR (Total Shareholder Return) and EPS (Earnings Per Share) objectives, as well as continued employment. The terms of these stock options are such that if, after nine years and eight months, the performance conditions have not been met, then the stock option will vest automatically.

The Group grants stock options with a life of 10 years, including the vesting period.

26. 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 2017	2.7	(247.1)	271.3	1,158.3	1,185.2
Exchange adjustments on foreign currency net investments	–	–	–	(445.5)	(445.5)
Gain on revaluation of available for sale investments	–	–	32.1	–	32.1
Recognition and remeasurement of financial instruments	–	(10.1)	–	–	(10.1)
31 December 2017	2.7	(257.2)	303.4	712.8	761.7
Exchange adjustments on foreign currency net investments	–	–	–	69.9	69.9
Accounting policy change (IFRS 9)[1]	–	–	(303.4)	(104.0)	(407.4)
Recognition and remeasurement of financial instruments	–	(30.7)	–	–	(30.7)
31 December 2018	**2.7**	**(287.9)**	**–**	**678.7**	**393.5**

Note

[1] Due to the adoption of IFRS 9, cumulative gains and losses on revaluation of available for sale investments have been transferred to retained earnings, as described in the accounting policies.

27. ACQUISITIONS

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

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

	Book value at acquisition £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	–	40.3	40.3
Property, plant and equipment	3.1	–	3.1
Cash	5.0	–	5.0
Trade receivables due within one year	43.7	–	43.7
Other current assets	20.3	–	20.3
Total assets	**72.1**	**40.3**	**112.4**
Current liabilities	(42.8)	–	(42.8)
Trade and other payables due after one year	(2.4)	(13.5)	(15.9)
Deferred tax liabilities	–	(9.9)	(9.9)
Provisions	–	(0.4)	(0.4)
Total liabilities	**(45.2)**	**(23.8)**	**(69.0)**
Net assets	**26.9**	**16.5**	**43.4**
Non-controlling interests			(6.3)
Fair value of equity stake in associate undertakings before acquisition of controlling interest			(3.1)
Goodwill			141.6
Consideration			175.6
Consideration satisfied by:			
Cash			127.4
Payments due to vendors			48.2

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 £65.3 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 2018 and the date the financial statements have been authorised for issue.

28. 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.

29. RECONCILIATION TO NON-GAAP MEASURES OF PERFORMANCE

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

Reconciliation of revenue to revenue less pass-through costs:

	2018 £m	2017[1] £m	2016[1] £m
Revenue	**15,602.4**	15,804.2	14,887.3
Media pass-through costs	**(1,458.0)**	(1,429.4)	(1,276.2)
Data collection pass-through costs	**(609.2)**	(646.4)	(669.8)
Other pass-through costs	**(708.6)**	(558.8)	(512.7)
Revenue less pass-through costs	**12,826.6**	13,169.6	12,428.6

Note

[1] Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

Pass-through costs comprise fees paid to external suppliers when they are engaged to perform part or all of a specific project and are charged directly to clients, predominantly media and data collection costs. This includes the cost of media where the Group's media investment management sub-sector is buying digital media for its own account on a transparent opt-in basis and, as a result, the subsequent media pass-through costs have to be accounted for as revenue, as well as billings. In addition, the data investment management sector, which forms a significant part of the Group's revenue and in which none of the Group's direct competitors have a significant presence, includes pass-through costs, principally for data collection. Therefore, management considers that revenue less pass-through costs gives a reflection of top-line performance.

Reconciliation of profit before interest and taxation to headline PBIT:

	2018 £m	2017 £m	2016 £m
Profit before interest and taxation	**1,474.9**	2,021.7	2,112.9
Amortisation and impairment of acquired intangible assets	**280.0**	195.1	168.4
Goodwill impairment	**183.9**	27.1	27.0
Gains on disposal of investments and subsidiaries	**(235.5)**	(129.0)	(44.3)
(Gains)/losses on remeasurement of equity interests arising from a change in scope of ownership	**(2.0)**	0.3	(232.4)
Investment write-downs	**2.0**	95.9	86.1
Restructuring and transformation costs	**302.3**	56.8	27.4
Share of exceptional losses/(gains) of associates	**41.7**	(0.8)	15.2
Headline PBIT	**2,047.3**	2,267.1	2,160.3
Finance income	**104.8**	95.2	80.4
Finance costs	**(289.3)**	(269.8)	(254.5)
	(184.5)	(174.6)	(174.1)
Interest cover on headline PBIT	**11.1 times**	13.0 times	12.4 times

Headline PBIT is one of the metrics that management uses to assess the performance of the business.

Headline PBIT margin[1] before and after share of results of associates:

	Margin %	2018 £m	Margin[2] %	2017[2] £m	Margin[2] %	2016[2] £m
Revenue less pass-through costs		**12,826.6**		13,169.6		12,428.6
Headline PBIT	**16.0%**	**2,047.3**	17.2%	2,267.1	17.4%	2,160.3
Share of results of associates (excluding exceptional gains/losses)		**(85.2)**		(112.7)		(65.0)
Headline operating profit	**15.3%**	**1,962.1**	16.4%	2,154.4	16.9%	2,095.3

Notes
1 Previously referred to as revenue less pass-through costs margin.
2 Prior year figures have been restated for the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, as described in the accounting policies.

Calculation of headline EBITDA:

	2018 £m	2017 £m	2016 £m
Headline PBIT (as above)	**2,047.3**	2,267.1	2,160.3
Depreciation of property, plant and equipment	**225.1**	230.7	220.8
Amortisation of other intangible assets	**38.7**	36.3	38.6
Headline EBITDA	**2,311.1**	2,534.1	2,419.7

Headline EBITDA is a key metric that private equity firms, for example, use for valuing companies, and is one of the metrics that management uses to assess the performance of the business.

Calculation of headline non-controlling interests:

	2018 £m	2017 £m	2016 £m
Non-controlling interests	**76.5**	95.7	101.5
Non-controlling interests relating to restructuring and transformation costs	**4.7**	–	–
Headline non-controlling interests	**81.2**	95.7	101.5

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

	2018 £m	2017 £m	2016 £m
Profit before taxation	**1,463.3**	2,109.3	1,890.5
Amortisation and impairment of acquired intangible assets	**280.0**	195.1	168.4
Goodwill impairment	**183.9**	27.1	27.0
Gains on disposal of investments and subsidiaries	**(235.5)**	(129.0)	(44.3)
(Gains)/losses on remeasurement of equity interests arising from a change in scope of ownership	**(2.0)**	0.3	(232.4)
Investment write-downs	**2.0**	95.9	86.1
Restructuring and transformation costs	**302.3**	56.8	27.4
Share of exceptional losses/(gains) of associates	**41.7**	(0.8)	15.2
Revaluation of financial instruments	**(172.9)**	(262.2)	48.3
Headline PBT	**1,862.8**	2,092.5	1,986.2
Headline tax charge	**(419.1)**	(460.3)	(417.2)
Headline non-controlling interests	**(81.2)**	(95.7)	(101.5)
Headline earnings	**1,362.5**	1,536.5	1,467.5
Ordinary dividends paid	**747.4**	751.5	616.5
Dividend cover on headline earnings	**1.8 times**	2.0 times	2.4 times

Headline PBT and headline earnings are metrics that management use to assess the performance of the business.

Reconciliation of free cash flow:

	2018 £m	2017 £m[1]	2016 £m[1]
Cash generated by operations	**2,174.7**	1,938.9	2,283.3
Plus:			
Interest received	**90.4**	76.9	73.9
Investment income	**15.4**	16.8	12.5
Dividends from associates	**49.7**	46.8	60.4
Share option proceeds	**1.2**	6.4	27.2
Proceeds on disposal of property, plant and equipment	**9.5**	8.0	7.7
Less:			
Earnout payments	**(120.2)**	(199.1)	(92.3)
Interest and similar charges paid	**(252.8)**	(246.6)	(242.1)
Purchases of property, plant and equipment	**(314.8)**	(288.9)	(252.1)
Purchases of other intangible assets (including capitalised computer software)	**(60.4)**	(37.3)	(33.0)
Corporation and overseas tax paid	**(383.6)**	(424.7)	(414.2)
Dividends paid to non-controlling interests in subsidiary undertakings	**(106.2)**	(87.8)	(89.6)
Free cash flow	**1,102.9**	809.4	1,341.7

Note
1 Prior year free cash flow has been re-presented to include movements in working capital and provisions and exclude earnout payments.

The Group bases its internal cash flow objectives on free cash flow. Management believes free cash flow is meaningful to investors because it is the measure of the Group's funds available for acquisition-related payments, dividends to shareholders, share repurchases and debt repayment. The purpose of presenting free cash flow is to indicate the ongoing cash generation within the control of the Group after taking account of the necessary cash expenditures of maintaining the capital and operating structure of the Group (in the form of payments of interest, corporate taxation and capital expenditure).

CONSTANT CURRENCY AND PRO FORMA ('LIKE-FOR-LIKE')

These consolidated financial statements are presented in pounds sterling. However, the Group's significant international operations give rise to fluctuations in foreign exchange rates. To neutralise foreign exchange impact and illustrate the underlying change in revenue and profit from one year to the next, the Group has adopted the practice of discussing results in both reportable currency (local currency results translated into pounds sterling at the prevailing foreign exchange rate) and constant currency.

Management also believes that discussing pro forma or like-for-like contributes to the understanding of the Group's performance and trends because it allows for meaningful comparisons of the current year to that of prior years.

Further details of the constant currency and pro forma methods are given in the financial glossary on pages 178 and 179.

COMPANY PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017 £m
Turnover		**–**	–
Operating income		**10.8**	14.1
Operating profit		**10.8**	14.1
Income from shares in Group undertakings		**35.9**	–
Interest payable and similar charges	31	**(127.1)**	(99.3)
Revaluation of financial instruments		**–**	0.6
Loss on ordinary activities before taxation		**(80.4)**	(84.6)
Taxation on loss on ordinary activities	32	**–**	–
Loss for the year		**(80.4)**	(84.6)

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

All results are derived from continuing activities.

There are no recognised gains or losses in either year, other than those shown above, and accordingly no statement of comprehensive income has been prepared.

COMPANY BALANCE SHEET

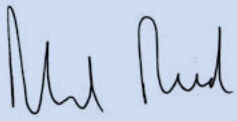
AS AT 31 DECEMBER 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Investments	33	**13,160.1**	13,075.3
		13,160.1	13,075.3
Current assets			
Debtors due within one year	34	**1,676.2**	1,661.7
Current liabilities			
Creditors: amounts falling due within one year	35	**(6,368.1)**	(5,452.9)
Net current liabilities		**(4,691.9)**	(3,791.2)
Total assets less current liabilities		**8,468.2**	9,284.1
Creditors: amounts falling due after more than one year	36	**(1,389.8)**	(1,359.6)
Net assets		**7,078.4**	7,924.5
Capital and reserves			
Called-up share capital		**133.3**	133.3
Share premium account		**569.7**	568.5
Other reserves	37	**(10.0)**	(10.0)
Capital redemption reserve		**2.7**	2.7
Own shares		**(1,046.9)**	(944.1)
Profit and loss account		**7,429.6**	8,174.1
Equity shareholders' funds		**7,078.4**	7,924.5

Note

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

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2019.



Mark Read
Chief Executive Officer

Paul Richardson
Group Finance Director

Registered Company Number: 111714

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary share capital £m	Share premium £m	Translation reserves £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total equity shareholders' funds £m
Balance at 1 January 2017	133.2	562.2	(10.0)	2.7	(766.7)	9,017.4	8,938.8
Ordinary shares issued	0.1	6.3	–	–	–	–	6.4
Treasury share additions	–	–	–	–	(289.6)	–	(289.6)
Treasury share allocations	–	–	–	–	112.2	(112.2)	–
Loss for the year	–	–	–	–	–	(84.6)	(84.6)
Dividends paid	–	–	–	–	–	(751.5)	(751.5)
Non-cash share-based incentive plans (including share options)	–	–	–	–	–	105.0	105.0
Balance at 31 December 2017	133.3	568.5	(10.0)	2.7	(944.1)	8,174.1	7,924.5
Ordinary shares issued	–	1.2	–	–	–	–	1.2
Treasury share additions	–	–	–	–	(104.3)	–	(104.3)
Treasury share allocations	–	–	–	–	1.5	(1.5)	–
Loss for the year	–	–	–	–	–	(80.4)	(80.4)
Dividends paid	–	–	–	–	–	(747.4)	(747.4)
Non-cash share-based incentive plans (including share options)	–	–	–	–	–	84.8	84.8
Balance at 31 December 2018	**133.3**	**569.7**	**(10.0)**	**2.7**	**(1,046.9)**	**7,429.6**	**7,078.4**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

30. ACCOUNTING POLICIES

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

A) BASIS OF ACCOUNTING

The separate financial statements of the Company are prepared under the historical cost convention in accordance with the Companies (Jersey) Law 1991. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements. The financial statements are prepared on a going concern basis, further details of which are in the Directors' report on page 79.

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018. The requirement under IFRS 9 to use an expected loss method of impairment of financial assets did not have a material effect on the Company due to materially all financial assets being owed by subsidiary undertakings and are expected to be paid in full.

B) TRANSLATION OF FOREIGN CURRENCY

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

C) INVESTMENTS

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

D) TAXATION

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

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

E) GROUP AND TREASURY SHARE TRANSACTIONS

Where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, IFRS 2 (share-based payment) requires the subsidiary to record an expense for such compensation with a corresponding increase recognised in equity as a contribution from the parent. Consequently, in the financial statements of the parent (WPP plc), the Company has recognised an addition to fixed asset investments of the aggregate amount of these contributions of £84.8 million in 2018 (2017: £105.0 million), with a credit to equity for the same amount.

F) FOREIGN CURRENCY AND INTEREST RATE HEDGING

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

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

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

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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

31. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £m	2017 £m
Interest payable on corporate bonds	–	6.0
Bank and other interest payable	**37.8**	18.1
Interest payable to subsidiary undertakings	**89.3**	75.2
	127.1	99.3

32. TAXATION ON LOSS ON ORDINARY ACTIVITIES

The tax assessed for the year differs from that resulting from applying the rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £m	2017 £m
Loss on ordinary activities before tax	**(80.4)**	(84.6)
Tax at the rate of 19% (2017: 19.25%) thereon	**15.3**	16.3
Factors affecting tax charge for the year:		
Revaluation of financial instruments	–	0.1
Group relief not paid for	**(22.1)**	(8.7)
Items that are not deductible/(taxable)	**6.8**	(7.7)
Tax charge for the year	–	–

33. FIXED ASSET INVESTMENTS

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

	Subsidiary undertakings £m
1 January 2018	13,075.3
Additions	84.8
31 December 2018	**13,160.1**

Fixed asset investments primarily represent 100% of the issued share capital of WPP Jubilee Limited, a company incorporated in Great Britain. Fixed asset investments were purchased in a share-for-share exchange. At 31 December 2018 cost and net book value were the same.

34. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

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

	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	**1,675.6**	1,661.4
Other debtors	**0.6**	0.3
	1,676.2	1,661.7

35. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

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

	2018 £m	2017 £m
Bank overdrafts	**1,174.1**	2,627.7
Amounts due to subsidiary undertakings	**5,190.3**	2,808.3
Interest payable on corporate bonds and bank overdrafts	**1.6**	2.5
Other creditors and accruals	**2.1**	14.4
	6,368.1	5,452.9

36. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

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

	2018 £m	2017 £m
Amounts due to subsidiary undertakings	**1,389.8**	1,359.6

Total borrowings are repayable as follows:

	2018 £m	2017 £m
Within one year	**6,368.1**	5,452.9
Between one and five years	**1,010.9**	673.7
Over five years	**378.9**	685.9
	7,757.9	6,812.5

37. EQUITY SHAREHOLDERS' FUNDS

Other reserves at 31 December 2018 comprise a translation reserve of £10.0 million (2017: £10.0 million).

At 31 December 2018 the Company's distributable reserves amounted to £6,942.4 million (2017: £7,788.5 million). Further details of the Company's share capital are shown in note 25.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WPP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- the financial statements of WPP plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit and the Parent Company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the accounting policies;
- the consolidated income statement (excluding the US dollar information);
- the consolidated statement of comprehensive income;
- the consolidated cash flow statement;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the Parent Company profit and loss account, balance sheet and statement of changes in equity; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: – Revenue recognition: estimate of revenue recognised over time based on the proportion of the level of service performed for open projects at year-end within the Kantar network – Goodwill – Restructuring and transformation costs – Taxation reserves Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £80.0 million (2017: 105.5 million) which we determined using 5.5% (2017: 5%) of pre-tax profit.
Scoping	Those entities subject to audit provide coverage for 76% of the Group's consolidated revenue (2017: 78%) and 81% of the Group's consolidated operating profit (2017: 83%); achieved through a combination of direct testing and specified audit procedures (including substantive analytical review procedures) performed by the Group auditor and/or component auditors across the world.
Significant changes in our approach	There have been no significant changes in our approach compared with the prior year. However, we revised our assessment of key audit matters as detailed below.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

We reviewed the Strategic report to shareholders on page 79 to the financial statements as to 1) whether they considered it appropriate to adopt the going concern basis of accounting in the financial statements and 2) their identification of any material uncertainties to the Group's and Parent Company's ability to conclude that the going concern basis of accounting is appropriate for a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the Strategic report to shareholders and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 79-83 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 79 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 79 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Given the reduced financial significance of media volume income for the Group, we no longer identified this as a key audit matter in the current year. However, upon the announcement of the potential sale of the Kantar network, which is part of Data Investment Management, we identified that there is a potential for fraud in relation to the cut-off of revenue recognised on open projects at year-end accounted for as revenue recognised over time based on the proportion of the level of service performed within the Kantar network. Therefore, this has been included as a key audit matter in the current year.

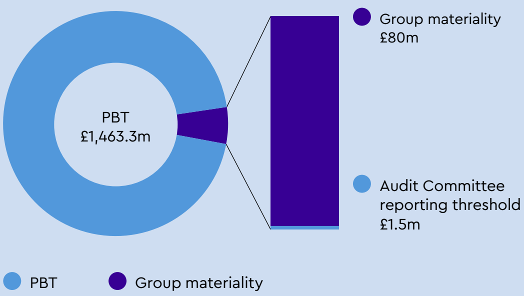
In addition, with the increase in costs incurred in respect of restructuring, we have included this as a key audit matter in the current year.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Revenue recognition: estimate of revenue recognised over time based on the proportion of the level of service performed for open projects at year-end within the Kantar network Assessing the timing of recognition revenue recognised on open projects at year-end and the proportion of the level of service at that date is an area of complexity and judgement due to the need for management to estimate the costs to complete the project. A risk exists that sales are incorrectly recorded in the wrong period based on incorrect management estimates. Given the degree of judgement and complexity involved and the announcement of the potential sale of the Kantar network (part of Data Investment Management), we also determined that there was a potential for fraud through possible manipulation of this balance. Refer to page 100 (Audit Committee report), page 124 (accounting policies) and page 132 (notes to the consolidated financial statements).	We have: – Analysed the total open contracts as at the year-end by total contract value and against prior periods to identify unusual trends; – Recalculated revenue recognised based on the proportion of the level of service performed by obtaining schedules of estimated costs to complete from project managers and challenging the key underlying assumptions to test their completeness and accuracy by reference to independent data sources; – Confirmed contract terms and the absence of side agreements with customers and assessing such terms or agreements and basis for rebates for the period to which they may relate (for example; acceptance criteria, delivery and payment terms, the absence of future or continuing vendor obligations, and cancellation or refund provisions which are often relevant in such circumstances); – Inquired of the Group's sales and marketing personnel or in-house legal counsel regarding open projects and their knowledge of any unusual terms or conditions associated with these transactions; – Attended year-end meetings where such projects are discussed in detail in order to observe the review control and internal challenge occurring; – Performed substantive analytical procedures relating to revenue using disaggregated data; for example, comparing revenue reported by month and by service during the current reporting period with comparable prior periods or with revenue related to cash collections.	The results of our testing were satisfactory. Cut-off of revenue recognised on open projects at year-end and estimated costs to complete in calculating the proportion of the level of service performed at that date appear to be reasonable.
Goodwill Given the magnitude of the goodwill balance and the continued economic uncertainty in certain regions, it is important to ensure that the goodwill impairment review is approached in a robust manner to identify potential impairments, where necessary. Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates concerning the estimated future cash flows and associated discount rates and growth rates based on management's view of future business prospects, including revenue growth and operating margin. The Group is highly acquisitive. As such, given the magnitude of the goodwill balance (2018: £13,202.8 million, 2017: £12,952.9 million), and the relative sensitivity to certain inputs to the impairment testing process, in particular the discount rate, the valuation of goodwill is considered a key audit matter. Certain parts of the business, including, in particular VMLY&R, were sensitive to the assumptions used in the impairment review and were treated as a key audit matter in the current year. Refer to page 100 (Audit Committee report), page 123 (accounting policies) and page 140 (notes to the consolidated financial statements).	We have: – Assessed the key assumptions used in the impairment models for goodwill, including specifically the operating cash flow projections, discount rates, and long term growth rates; – Compared these assumptions to externally derived data (where applicable) as well as forming our own assessment, including consideration of the potential impact of Brexit; – Our internal fair value specialists assisted in computing an independent assessment of the discount rates used and assessing the methodology used in preparing the impairment testing models; – Tested the integrity and mathematical accuracy of the impairment models; and – Considered the sensitivity of the impairment testing model to changes in key assumptions. We also considered the adequacy of the Group's disclosures in respect of its goodwill impairment testing and goodwill impairment recognised, including whether disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions properly reflected the risks inherent in such assumptions.	The results of our testing were satisfactory and we concur that the assumptions used in the impairment models, including the discount rates, and level of goodwill impairment booked in the year are appropriate.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Restructuring and transformation costs Management has implemented a restructuring and transformation programme as part of a strategic review in the current year. Management judgement is required to determine whether a restructuring cost can be recognised in the year. Restructuring and transformation costs were £302.3 million for the year ended 31 December 2018 (2017: £56.8 million) as highlighted in note 3 and within the Audit Committee report. The key judgements include assessing whether the timing and extent of the plans and their communication to those likely to be affected meet the requirements set out in *IAS 37 Provisions, Contingent Assets and Contingent Liabilities*. We therefore identified a key audit matter in relation to the cut-off such costs as recognised in the year.	We have: – Performed a walkthrough of the process performed by Management and tested the design, implementation and operating effectiveness of key controls identified; – Made enquiries made of management of the operating companies and have corroborated our understanding of the restructuring programmes in place gained at a Group level; and – Performed substantive testing by selecting a sample of costs and obtaining supporting documentation, at a component and global level. For the sample selected we have assessed whether the recognition criteria as set out in IAS 37 Provisions, Contingent Assets and Contingent Liabilities have been met in the year such that the cut-off of the costs has been appropriately accounted for and that management's estimates at the year-end date are reasonable.	The results of our testing were satisfactory and we conclude that the restructuring and transformation costs recognised in the year appear to have been appropriately accounted for.
Taxation reserves There is uncertainty in respect of resolving matters with tax authorities around the world. The highly disaggregated nature of the Group coupled with its acquisitive nature means that there are a number of different tax jurisdictions in which the Group could be liable to pay additional tax above the amount due based on its tax returns, making potential tax exposures a key audit matter. Therefore assessing the Group's exposure to significant tax risks and the level of provisions recognised is an area of judgement. Refer to page 100 (Audit Committee report), page 125 (accounting policies) and page 136 (notes to the consolidated financial statements).	We have: – Discussed and considered all significant taxation exposures with Group management including their tax specialists; and – Together with our internal taxation specialists we challenged the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held. We reviewed correspondence with taxation authorities in significant locations where available, as well as reviewing the support or opinions received from external counsel and other advisors where management has utilised such opinions to make assumptions on the level of taxation payable.	The results of our testing were satisfactory. There were no material exceptions noted when corroborating management's judgement to the correspondence and support reviewed for those significant tax reserves.

OUR APPLICATION OF MATERIALITY

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



Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£80.0 million (2017: £105.5 million)	£32.0 million (2017: £42.2 million)
Basis for determining materiality	5.5% of profit before tax (2017: 5.0% of profit before tax)	The basis of materiality is shareholder's equity, taking into account the Group materiality. The materiality used is less than 1% of shareholder's equity (2017: less than 1% of shareholder's equity).
Rationale for the benchmark applied	We have determined that the critical benchmark for the Group was pre-tax profit because we consider this measure to be what the shareholders believe to be a key performance indicator for the Group. We also considered this measure to be suitable having compared to another benchmark: our materiality is below 1% of equity (2017: below 1%). Materiality is lower than for the year ended 31 December 2017 primarily as a result of a lower pre-tax profit achieved in 2018.	Given the nature of the Company as a parent company, we consider shareholder's equity to be the most appropriate basis for materiality. We have, however, capped the materiality at 40% of Group Materiality (2017: 40% of Group Materiality).

We agreed with the Audit Committee that we would separately report to the Committee all audit differences in excess of £1.5 million (2017: £1.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

As a result of the highly disaggregated nature of the Group, with operations in 112 countries and more than 3,000 offices among more than 150 companies within the Group, a significant portion of audit planning time is spent so that the scope of our work is appropriate to address the Group's identified risks of material misstatement.

In selecting the components that are in scope each year, we refresh and update our understanding of the Group and its environment, including obtaining an understanding of the Group's system of internal controls, and assessing the risks of material misstatement at the Group level, in order to check that the units selected provide an appropriate basis on which to undertake audit work to address the identified risks of material misstatement. Such audit work represents a combination of procedures, all of which are designed to target the Group's identified risks of material misstatement in the most effective manner possible.

Those entities subject to audit provide for coverage of 76% of the Group's consolidated revenue (2017: 78%) and 81% of the Group's consolidated operating profit (2017: 83%); achieved through a combination of direct testing and specified audit procedures (including substantive analytical review procedures) performed by the Group auditor and/or component auditors across the world. Our audit work at the components is executed at levels of materiality appropriate for such components, many of which are local statutory materiality levels which in all instances are capped at 40% of Group materiality.

In order to support our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit, we tested the consolidation process and carried out analytical procedures at the parent entity level.

HOW WE WORK CLOSELY WITH COMPONENT AUDITORS

The Group audit team plans its visits to component auditors based on a carefully designed programme, which considers a variety of factors including size of entity and number of significant risks; this programme is put in place to check that appropriate oversight and guidance is provided to the component auditors through a combination of:

- upfront team briefings to all component teams;
- site visits;
- central review of documentation; and
- risk assessment discussions and detailed workpaper reviews.

These are designed so that the Senior Statutory Auditor or a senior member of the Group audit team visits all key locations across the Group on regular basis. In addition we assess the competence of our component auditors.

In years when we do not visit a key location we will:

- include the component audit partner in our team briefing;
- discuss their risk assessment; and
- review documentation of the findings from their work.

We also hold quarterly meetings with management at a regional and global level in order to update our understanding of the Group and its environment on an ongoing basis.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in relation to the cut-off of revenue recognised on open projects at year-end and estimated costs to complete in calculating the proportion of the level of service performed at that date in the Kantar network; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included various taxation laws, Securities and Exchange Commission, Major Securities Law, Listing Rules, European Union law and Companies (Jersey) Law. In addition, compliance with the Group's regulatory solvency requirements were fundamental to the Group's ability to continue as a going concern.

AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the fraud risk in relation to the cut-off of revenue recognised on open projects at year-end and estimated costs to complete in calculating the proportion of the level of service performed at that date in the Kantar network as a key audit matter. The key audit matters section of our report explains this matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and internal and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant tax authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY OUR ENGAGEMENT LETTER

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the UK Companies Act 2006 as if that Act had applied to the Company.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Corporate Governance report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Corporate Governance report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

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

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Parent Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

DIRECTORS' REMUNERATION

Under our engagement letter we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

OTHER MATTERS

AUDITOR TENURE

Following the recommendation of the Audit Committee, we were appointed by the Company at the AGM on 20 May 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2002 to 31 December 2018.

CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

USE OF OUR REPORT

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

Richard Muschamp
For and on behalf of Deloitte LLP
Recognised Auditor
London, United Kingdom
10 April 2019