Our 2012 financial statements

Accounting policies

The consolidated financial statements of WPP plc and its subsidiaries (the Group) for the year ended 31 December 2012 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 2012.

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.

Goodwill and other intangible assets

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

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

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

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

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

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

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

Contingent consideration

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

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

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

Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated depreciation and any provision for impairment with the exception of freehold land which is not depreciated. The Group assesses the carrying value of its property, plant and equipment to determine if any impairment has occurred. Where this indicates that an asset may be impaired, the Group applies the requirements of IAS 36 Impairment of Assets in assessing the carrying amount of the asset. This process includes comparing its recoverable amount with its carrying value.

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

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

Interests in associates and joint ventures

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

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

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

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

Other investments

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

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

Inventory and work in progress

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

Trade receivables

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

Foreign currency and interest rate hedging

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

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

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

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

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

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

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

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

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

Liabilities in respect of option agreements

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

Derecognition of financial liabilities

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

Convertible debt

Convertible debt is assessed according to the substance of the contractual arrangements and is classified into liability and equity elements on the basis of the initial fair value of the liability element. The difference between this figure and the cash received is classified as equity.

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

Other debt

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

Borrowing costs

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

Revenue recognition

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

Advertising and Media Investment Management

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

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

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

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

Consumer Insight

Revenue recognised in proportion to the level of service performed for market research contracts is based on proportional performance. In assessing contract performance, both input and output criteria are reviewed. Costs incurred are used as an objective input measure of performance. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. Costs incurred as a proportion of expected total costs is used as an initial proportional performance measure. This indicative proportional performance measure is subsequently validated against other more subjective criteria (i.e. relevant output measures) such as the percentage of interviews completed, percentage of reports delivered to a client and the achievement of any project milestones stipulated in the contract. In the event of divergence between the objective and more subjective measures, the more subjective measures take precedence since these are output measures.

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

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

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

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

Taxation

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

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

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

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

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

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

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

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

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

Retirement benefit costs

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 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 if the benefits have vested. If the benefits have not vested, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown within finance costs and finance income respectively. 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 Employee Benefits.

Finance leases

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

Operating leases

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

Translation of foreign currencies

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

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

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

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

Share-based payments

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

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

New IFRS accounting pronouncements

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

- IFRS 9: Financial Instruments;
- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IFRS 12: Disclosure of Interests in Other Entities;
- IFRS 13: Fair Value Measurement;
- IAS 1 (amended): Presentation of Financial Statements;
- IAS 19 (amended): Employee Benefits;
- IAS 27 (revised): Separate Financial Statements;
- IAS 28 (revised): Investments in Associates and Joint Ventures; and
- IAS 32 (amended): Financial Instruments: Presentation.

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

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

- IFRS 7 (amended): Financial Instruments: Disclosures; and
- IAS 12 (amended): Income Taxes.

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

Critical judgements in applying accounting policies

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

22 April 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m	2010 £m	2012 $m[3]	2011 $m[3]	2010 $m[3]
Billings[1]		**44,405.3**	44,791.8	42,683.6	**70,459.1**	71,749.2	65,961.2
Revenue	2	**10,373.1**	10,021.8	9,331.0	**16,459.3**	16,053.4	14,416.2
Direct costs		**(858.3)**	(783.3)	(770.5)	**(1,361.9)**	(1,253.7)	(1,190.0)
Gross profit		**9,514.8**	9,238.5	8,560.5	**15,097.4**	14,799.7	13,226.2
Operating costs	3	**(8,273.7)**	(8,046.3)	(7,587.5)	**(13,120.8)**	(12,896.3)	(11,728.2)
Operating profit		**1,241.1**	1,192.2	973.0	**1,976.6**	1,903.4	1,498.0
Share of results of associates	4	**69.4**	66.1	55.2	**110.3**	105.8	85.3
Profit before interest and taxation		**1,310.5**	1,258.3	1,028.2	**2,086.9**	2,009.2	1,583.3
Finance income	6	**85.9**	97.3	81.7	**136.3**	155.3	126.0
Finance costs	6	**(299.8)**	(297.2)	(276.8)	**(475.3)**	(475.9)	(427.8)
Revaluation of financial instruments	6	**(4.7)**	(50.0)	18.2	**(6.5)**	(79.2)	30.1
Profit before taxation		**1,091.9**	1,008.4	851.3	**1,741.4**	1,609.4	1,311.6
Taxation	7	**(197.2)**	(91.9)	(190.3)	**(315.4)**	(151.1)	(294.4)
Profit for the year		**894.7**	916.5	661.0	**1,426.0**	1,458.3	1,017.2
Attributable to:							
Equity holders of the parent		**822.7**	840.1	586.0	**1,311.5**	1,335.7	901.0
Non-controlling interests		**72.0**	76.4	75.0	**114.5**	122.6	116.2
		894.7	916.5	661.0	**1,426.0**	1,458.3	1,017.2
Headline PBIT	31	**1,531.0**	1,429.0	1,228.7	**2,439.3**	2,281.5	1,893.3
Headline PBIT margin	31	**14.8%**	14.3%	13.2%	**14.8%**	14.2%	13.1%
Headline PBT	31	**1,317.1**	1,229.1	1,033.6	**2,100.3**	1,960.9	1,591.5
Earnings per share[2]							
Basic earnings per ordinary share	9	**66.2p**	67.6p	47.5p	**105.5¢**	107.5¢	73.1¢
Diluted earnings per ordinary share	9	**62.8p**	64.5p	45.9p	**100.0¢**	102.6¢	70.6¢

Notes

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

1 Billings is defined on page 226.

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

3 The consolidated income statement above is also expressed in US dollars for information purposes only and is unaudited. It has been prepared assuming the US dollar is the reporting currency of the Group, whereby local currency results are translated into US dollars at actual monthly average exchange rates in the period presented. Among other currencies, this includes an average exchange rate of US$1.5852 to the pound sterling for the year 2012 (2011: US$1.6032, 2010: US$1.5461).

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	2012 £m	2011 £m	2010 £m
Profit for the year	**894.7**	916.5	661.0
Exchange adjustments on foreign currency net investments	**(305.2)**	(256.3)	156.3
(Loss)/gain on revaluation of available for sale investments	**(3.5)**	11.3	(59.8)
Actuarial loss on defined benefit pension plans	**(83.9)**	(72.0)	(0.4)
Deferred tax on defined benefit pension plans	**7.3**	0.1	0.2
Other comprehensive loss relating to the year	**(385.3)**	(316.9)	96.3
Total comprehensive income relating to the year	**509.4**	599.6	757.3
Attributable to:			
Equity holders of the parent	**444.2**	529.5	672.6
Non-controlling interests	**65.2**	70.1	84.7
	509.4	599.6	757.3

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 2012

	Notes	2012 £m	2011 £m	2010 £m
Net cash inflow from operating activities	11	**908.3**	665.2	1,361.2
Investing activities				
Acquisitions and disposals	11	**(566.5)**	(469.8)	(200.1)
Purchases of property, plant and equipment		**(290.3)**	(216.1)	(190.5)
Purchases of other intangible assets (including capitalised computer software)		**(39.8)**	(37.1)	(27.0)
Proceeds on disposal of property, plant and equipment		**123.5**	13.2	7.6
Net cash outflow from investing activities		**(773.1)**	(709.8)	(410.0)
Financing activities				
Share option proceeds		**56.0**	28.8	42.7
Cash consideration for non-controlling interests	11	**(20.1)**	(62.6)	(15.1)
Share repurchases and buy-backs	11	**(134.5)**	(182.2)	(46.4)
Net increase in borrowings	11	**380.5**	301.4	19.8
Financing and share issue costs		**(8.2)**	(11.9)	(3.5)
Equity dividends paid		**(306.6)**	(218.4)	(200.4)
Dividends paid to non-controlling interests in subsidiary undertakings		**(51.9)**	(62.2)	(66.7)
Net cash outflow from financing activities		**(84.8)**	(207.1)	(269.6)
Net increase/(decrease) in cash and cash equivalents		**50.4**	(251.7)	681.6
Translation differences		**(119.3)**	(29.9)	82.2
Cash and cash equivalents at beginning of year		**1,428.2**	1,709.8	946.0
Cash and cash equivalents at end of year	11	**1,359.3**	1,428.2	1,709.8

Reconciliation of net cash flow to movement in net debt:				
Net increase/(decrease) in cash and cash equivalents		**50.4**	(251.7)	681.6
Cash inflow from increase in debt financing		**(372.5)**	(289.5)	(16.3)
Debt acquired		**(20.0)**	(17.5)	–
Other movements		**3.4**	(16.4)	(17.7)
Translation differences		**(17.7)**	(1.3)	104.4
Movement of net debt in the year		**(356.4)**	(576.4)	752.0
Net debt at beginning of year		**(2,464.8)**	(1,888.4)	(2,640.4)
Net debt at end of year	10	**(2,821.2)**	(2,464.8)	(1,888.4)

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

Consolidated balance sheet

At 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets:			
Goodwill	12	**9,457.2**	9,430.8
Other	12	**1,827.4**	1,859.9
Property, plant and equipment	13	**768.3**	728.3
Interests in associates and joint ventures	14	**887.2**	801.3
Other investments	14	**176.5**	190.8
Deferred tax assets	15	**91.2**	86.0
Trade and other receivables	17	**245.1**	309.1
		13,452.9	13,406.2
Current assets			
Inventory and work in progress	16	**348.2**	333.9
Corporate income tax recoverable		**124.2**	88.5
Trade and other receivables	17	**9,007.0**	8,919.7
Cash and short-term deposits		**1,945.3**	1,946.6
		11,424.7	11,288.7
Current liabilities			
Trade and other payables	18	**(10,907.8)**	(11,165.5)
Corporate income tax payable		**(102.9)**	(113.4)
Bank overdrafts and loans	20	**(1,085.9)**	(518.4)
		(12,096.6)	(11,797.3)
Net current liabilities		**(671.9)**	(508.6)
Total assets less current liabilities		**12,781.0**	12,897.6
Non-current liabilities			
Bonds and bank loans	20	**(3,680.6)**	(3,893.0)
Trade and other payables	19	**(512.0)**	(553.1)
Corporate income tax payable		**(375.3)**	(379.5)
Deferred tax liabilities	15	**(680.3)**	(741.4)
Provision for post-employment benefits	23	**(335.6)**	(282.3)
Provisions for liabilities and charges	21	**(136.6)**	(154.0)
		(5,720.4)	(6,003.3)
Net assets		**7,060.6**	6,894.3
Equity			
Called-up share capital	26	**126.5**	126.6
Share premium account		**175.9**	105.7
Shares to be issued		**1.8**	2.4
Merger reserve		**(5,135.7)**	(5,136.2)
Other reserves	27	**622.7**	938.9
Own shares		**(166.5)**	(177.6)
Retained earnings		**11,186.3**	10,803.5
Equity share owners' funds		**6,811.0**	6,663.3
Non-controlling interests		**249.6**	231.0
Total equity		**7,060.6**	6,894.3

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

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2013.
Signed on behalf of the Board:

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Called-up share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves[1] £m	Own shares £m	Retained earnings £m	Total equity share owners' funds £m	Non-controlling interests £m	Total £m
Balance at 1 January 2012	**126.6**	**105.7**	**2.4**	**(5,136.2)**	**938.9**	**(177.6)**	**10,803.5**	**6,663.3**	**231.0**	**6,894.3**
Ordinary shares issued	1.0	55.0	(0.6)	0.5	–	–	–	55.9	–	55.9
Share issue/cancellation costs	–	(0.2)	–	–	–	–	–	(0.2)	–	(0.2)
Share cancellations	(0.7)	–	–	–	0.7	–	(55.1)	(55.1)	–	(55.1)
Treasury share additions	–	–	–	–	–	(0.6)	–	(0.6)	–	(0.6)
Treasury share allocations	–	–	–	–	–	0.9	(0.9)	–	–	–
Treasury share cancellations	(0.6)	–	–	–	0.6	37.2	(37.2)	–	–	–
Exchange adjustments on foreign currency net investments	–	–	–	–	(298.4)	–	–	(298.4)	(6.8)	(305.2)
Net profit for the year	–	–	–	–	–	–	822.7	822.7	72.0	894.7
Dividends paid	–	–	–	–	–	–	(306.6)	(306.6)	(51.9)	(358.5)
Scrip dividend	0.2	15.4	–	–	–	–	(15.6)	–	–	–
Non-cash share-based incentive plans (including share options)	–	–	–	–	–	–	92.8	92.8	–	92.8
Tax adjustment on share-based payments	–	–	–	–	–	–	18.3	18.3	–	18.3
Net movement in own shares held by ESOP Trusts	–	–	–	–	–	(26.4)	(52.4)	(78.8)	–	(78.8)
Actuarial loss on defined benefit pension plans	–	–	–	–	–	–	(83.9)	(83.9)	–	(83.9)
Deferred tax on defined benefit pension plans	–	–	–	–	–	–	7.3	7.3	–	7.3
Loss on revaluation of available for sale investments	–	–	–	–	(3.5)	–	–	(3.5)	–	(3.5)
Recognition/remeasurement of financial instruments	–	–	–	–	2.7	–	14.8	17.5	–	17.5
Share purchases – close period commitments	–	–	–	–	(18.3)	–	–	(18.3)	–	(18.3)
Acquisition of subsidiaries[2]	–	–	–	–	–	–	(21.4)	(21.4)	5.3	(16.1)
Balance at 31 December 2012	**126.5**	**175.9**	**1.8**	**(5,135.7)**	**622.7**	**(166.5)**	**11,186.3**	**6,811.0**	**249.6**	**7,060.6**

Notes

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

1 Other reserves are analysed in note 27.

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

Total comprehensive income relating to the year ended 31 December 2012 was £509.4 million (2011: £599.6 million).

For the year ended 31 December 2011

	Called-up share capital £m	Share premium account £m	Shares to be issued £m	Merger reserve £m	Other reserves[1] £m	Own shares £m	Retained earnings £m	Total equity share owners' funds £m	Non-controlling interests £m	Total £m
Balance at 1 January 2011	**126.4**	**54.5**	**3.1**	**(5,136.8)**	**1,182.8**	**(144.8)**	**10,361.4**	**6,446.6**	**201.3**	**6,647.9**
Ordinary shares issued	0.6	30.4	(0.7)	0.6	–	–	–	30.9	–	30.9
Share cancellations	(0.7)	–	–	–	0.7	–	(45.9)	(45.9)	–	(45.9)
Treasury share additions	–	–	–	–	–	(29.8)	–	(29.8)	–	(29.8)
Treasury share allocations	–	–	–	–	–	0.8	(0.8)	–	–	–
Exchange adjustments on foreign currency net investments	–	–	–	–	(250.0)	–	–	(250.0)	(6.3)	(256.3)
Net profit for the year	–	–	–	–	–	–	840.1	840.1	76.4	916.5
Dividends paid	–	–	–	–	–	–	(218.4)	(218.4)	(62.2)	(280.6)
Scrip dividend	0.3	20.8	–	–	–	–	(21.1)	–	–	–
Non-cash share-based incentive plans (including share options)	–	–	–	–	–	–	78.8	78.8	–	78.8
Tax adjustment on share-based payments	–	–	–	–	–	–	(11.7)	(11.7)	–	(11.7)
Net movement in own shares held by ESOP Trusts	–	–	–	–	–	(3.8)	(102.7)	(106.5)	–	(106.5)
Actuarial loss on defined benefit pension plans	–	–	–	–	–	–	(72.0)	(72.0)	–	(72.0)
Deferred tax on defined benefit pension plans	–	–	–	–	–	–	0.1	0.1	–	0.1
Gain on revaluation of available for sale investments	–	–	–	–	11.3	–	–	11.3	–	11.3
Recognition/remeasurement of financial instruments	–	–	–	–	(5.9)	–	33.8	27.9	–	27.9
Acquisition of subsidiaries[2]	–	–	–	–	–	–	(38.1)	(38.1)	21.8	(16.3)
Balance at 31 December 2011	**126.6**	**105.7**	**2.4**	**(5,136.2)**	**938.9**	**(177.6)**	**10,803.5**	**6,663.3**	**231.0**	**6,894.3**

Notes
The accompanying notes form an integral part of this consolidated statement of changes in equity.
1 Other reserves are analysed in note 27.
2 Acquisition of subsidiaries represents movements in retained earnings and non-controlling interests arising from changes in ownership of existing subsidiaries and recognition of non-controlling interests on new acquisitions.

Notes to the consolidated financial statements

For the year ended 31 December 2012

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

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

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

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

Operating sectors
Reported contributions were as follows:

	Revenue[1] 2012 £m	**Headline PBIT[2] 2012 £m**	**Headline PBIT margin 2012 %**	Revenue[1] 2011 £m	Headline PBIT[2] 2011 £m	Headline PBIT margin 2011 %	Revenue[1] 2010 £m	Headline PBIT[2] 2010 £m	Headline PBIT margin 2010 %
Advertising and Media Investment Management	**4,273.2**	**754.5**	**17.7**	4,157.2	667.9	16.1	3,733.3	573.0	15.3
Consumer Insight	**2,460.2**	**246.9**	**10.0**	2,458.0	258.7	10.5	2,430.2	234.8	9.7
Public Relations & Public Affairs	**917.1**	**136.4**	**14.9**	885.4	142.9	16.1	844.5	133.1	15.8
Branding & Identity, Healthcare and Specialist Communications	**2,722.6**	**393.2**	**14.4**	2,521.2	359.5	14.3	2,323.0	287.8	12.4
	10,373.1	**1,531.0**	**14.8**	10,021.8	1,429.0	14.3	9,331.0	1,228.7	13.2

Notes
1 Intersegment sales have not been separately disclosed as they are not material.
2 A reconciliation from reported profit before interest and taxation to headline PBIT is provided in note 31. Reported profit before interest and taxation is reconciled to reported profit before taxation in the consolidated income statement.

Other information	Share-based payments £m	Capital additions[1] £m	Depreciation and amortisation[2] £m	Goodwill impairment & write-downs £m	Share of results of associates £m	Interests in associates and joint ventures £m
2012						
Advertising and Media Investment Management	**49.3**	**198.4**	**97.1**	**0.7**	**34.7**	**566.9**
Consumer Insight	**16.6**	**60.5**	**55.5**	**–**	**18.6**	**102.4**
Public Relations & Public Affairs	**4.9**	**12.4**	**15.7**	**31.3**	**2.3**	**47.9**
Branding & Identity, Healthcare and Specialist Communications	**22.0**	**66.9**	**56.4**	**–**	**13.8**	**170.0**
	92.8	**338.2**	**224.7**	**32.0**	**69.4**	**887.2**
2011						
Advertising and Media Investment Management	44.5	112.7	94.2	–	36.4	549.9
Consumer Insight	12.7	63.1	49.8	–	16.3	101.3
Public Relations & Public Affairs	3.9	15.4	15.8	–	3.2	42.6
Branding & Identity, Healthcare and Specialist Communications	17.7	62.0	51.7	–	10.2	107.5
	78.8	253.2	211.5	–	66.1	801.3
2010						
Advertising and Media Investment Management	36.8	95.6	94.2	0.3	26.2	487.3
Consumer Insight	13.7	58.9	49.8	–	15.1	122.6
Public Relations & Public Affairs	3.3	12.9	14.1	2.0	4.1	58.7
Branding & Identity, Healthcare and Specialist Communications	16.6	50.1	52.2	7.7	9.8	123.5
	70.4	217.5	210.3	10.0	55.2	792.1

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

			Assets			Liabilities
Balance sheet	Segment assets £m	Unallocated corporate assets[1] £m	Consolidated total assets £m	Segment liabilities £m	Unallocated corporate liabilities[1] £m	Consolidated total liabilities £m
2012						
Advertising and Media Investment Management	**12,013.9**			**(9,152.7)**		
Consumer Insight	**3,371.4**			**(1,004.0)**		
Public Relations & Public Affairs	**1,724.2**			**(370.8)**		
Branding & Identity, Healthcare and Specialist Communications	**5,607.4**			**(1,364.5)**		
	22,716.9	**2,160.7**	**24,877.6**	**(11,892.0)**	**(5,925.0)**	**(17,817.0)**
2011						
Advertising and Media Investment Management	12,075.9			(9,331.8)		
Consumer Insight	3,525.3			(1,058.2)		
Public Relations & Public Affairs	1,825.0			(411.4)		
Branding & Identity, Healthcare and Specialist Communications	5,147.6			(1,353.5)		
	22,573.8	2,121.1	24,694.9	(12,154.9)	(5,645.7)	(17,800.6)
2010						
Advertising and Media Investment Management	11,795.7			(9,553.6)		
Consumer Insight	3,691.2			(1,143.9)		
Public Relations & Public Affairs	1,699.6			(388.4)		
Branding & Identity, Healthcare and Specialist Communications	5,031.4			(1,409.4)		
	22,217.9	2,127.2	24,345.1	(12,495.3)	(5,201.9)	(17,697.2)

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

Contributions by geographical area were as follows:

	2012 £m	2011 £m	2010 £m
Revenue[1]			
North America[4]	3,546.5	3,388.2	3,299.8
UK	1,275.2	1,183.5	1,087.6
Western Continental Europe[5]	2,439.2	2,505.1	2,325.3
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	3,112.2	2,945.0	2,618.3
	10,373.1	10,021.8	9,331.0

	Margin	2012	Margin	2011	Margin	2010
Headline PBIT[2]						
North America[4]	16.3%	578.6	15.5%	525.6	14.7%	484.6
UK	13.6%	173.3	14.0%	165.3	13.6%	147.9
Western Continental Europe[5]	10.4%	252.9	11.3%	284.0	9.5%	221.6
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	16.9%	526.2	15.4%	454.1	14.3%	374.6
	14.8%	1,531.0	14.3%	1,429.0	13.2%	1,228.7

	2012	2011
Non-current assets[3]		
North America[4]	5,131.9	4,960.4
UK	1,766.7	1,728.1
Western Continental Europe[5]	3,590.3	3,681.8
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	2,731.1	2,765.0
	13,220.0	13,135.3

Notes

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

2 Headline PBIT is defined in note 31.

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

4 North America includes the US with revenue of £3,309.4 million (2011: £3,149.9 million, 2010: £3,097.9 million), headline PBIT of £547.8 million (2011: £490.2 million, 2010: £448.7 million) and non-current assets of £4,534.4 million (2011: £4,396.5 million).

5 Western Continental Europe includes Ireland with revenue of £36.6 million (2011: £40.3 million, 2010: £37.4 million), headline PBIT of £0.7 million (2011: £1.1 million, 2010: £2.0 million) and non-current assets of £50.4 million (2011: £52.4 million).

3. Operating costs

	2012 £m	2011 £m	2010 £m
Staff costs (note 5)	6,106.1	5,872.5	5,438.7
Establishment costs	690.6	674.1	659.2
Other operating costs (net)	1,477.0	1,499.7	1,489.6
Total operating costs	8,273.7	8,046.3	7,587.5
Operating costs include:			
Goodwill impairment (note 12)	32.0	–	10.0
Investment write-downs	19.6	32.8	37.5
Gain on sale of freehold property in New York	(71.4)	–	–
Cost of changes to corporate structure	4.1	–	–
Restructuring costs	93.4	–	–
Amortisation and impairment of acquired intangible assets (note 12)	171.9	172.0	170.5
Amortisation of other intangible assets (note 12)	33.7	25.7	25.4
Depreciation of property, plant and equipment	184.2	178.7	178.3
Losses/(gains) on sale of property, plant and equipment	0.7	(0.9)	0.7
Gains on disposal of investments	(26.8)	(0.4)	(4.1)
Gains on remeasurement of equity interest on acquisition of controlling interest	(5.3)	(31.6)	(13.7)
Net foreign exchange losses	7.7	1.1	8.0
Operating lease rentals:			
Land and buildings	464.6	459.6	449.9
Sublease income	(23.0)	(29.1)	(32.8)
	441.6	430.5	417.1
Plant and machinery	21.9	23.0	24.8
	463.5	453.5	441.9

In 2012, operating profit includes credits totalling £19.8 million (2011: £14.0 million, 2010: £16.5 million) relating to the release of excess provisions and other balances established in respect of acquisitions completed prior to 2011. Further details of the Group's approach to acquisition reserves, as required by IFRS 3 Business Combinations, are given in note 28.

Investment write-downs of £19.6 million (2011: £32.8 million) relate to certain non-core minority investments in the US and Continental Europe where forecast financial performance and/or liquidity issues indicate a permanent decline in the recoverability of the Group's investment.

Restructuring costs of £93.4 million include £62.9 million of severance costs arising from a structural reassessment of certain of the Group's operations, primarily in Western Continental Europe; and £30.5 million of other costs, primarily accelerated depreciation of IT assets in the US and Europe, arising from an overhaul of its centralised IT infrastructure.

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

Auditors' remuneration:

	2012 £m	2011 £m	2010 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**1.4**	1.4	1.4
The audit of the Company's subsidiaries pursuant to legislation	**14.6**	15.3	14.8
	16.0	16.7	16.2
Other services pursuant to legislation	**3.1**	3.1	3.1
Fees payable to the auditors pursuant to legislation	**19.1**	19.8	19.3
Tax advisory services	**2.5**	2.3	2.7
Tax compliance services	**1.0**	1.1	1.2
	3.5	3.4	3.9
Corporate finance services	**0.5**	0.5	0.2
Other services[1]	**3.9**	4.7	5.1
Total non-audit fees	**7.9**	8.6	9.2
Total fees	**27.0**	28.4	28.5

Note

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

Minimum committed annual rentals

Amounts payable in 2013 under leases will be as follows:

	Plant and machinery			Land and buildings		
	2013 £m	2012 £m	2011 £m	2013 £m	2012 £m	2011 £m
In respect of operating leases which expire:						
– within one year	4.1	5.5	4.8	34.8	27.4	32.7
– within two to five years	13.0	13.2	14.8	166.1	190.7	163.4
– after five years	0.2	0.5	0.2	145.4	143.6	159.7
	17.3	19.2	19.8	346.3	361.7	355.8

Future minimum annual amounts payable under all lease commitments in existence at 31 December 2012 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ending 31 December			
2013	363.6	(7.0)	356.6
2014	310.9	(4.3)	306.6
2015	277.9	(3.3)	274.6
2016	227.4	(1.7)	225.7
2017	179.8	(0.7)	179.1
Later years	829.0	(0.4)	828.6
	2,188.6	(17.4)	2,171.2

4. Share of results of associates

Share of results of associates include:

	2012 £m	2011 £m	2010 £m
Share of profit before interest and taxation	**105.1**	99.9	86.0
Share of exceptional (losses)/gains	**(3.0)**	2.1	(0.3)
Share of interest and non-controlling interests	**(1.6)**	(2.5)	(2.7)
Share of taxation	**(31.1)**	(33.4)	(27.8)
	69.4	66.1	55.2

5. Our people

Our staff numbers averaged 114,490 for the year ended 31 December 2012 against 109,971 in 2011 and 101,387 in 2010, including acquisitions. Their geographical distribution was as follows:

	2012	2011	2010
North America	**27,782**	27,540	25,546
UK	**11,413**	10,761	9,620
Western Continental Europe	**23,322**	22,298	21,154
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	**51,973**	49,372	45,067
	114,490	109,971	101,387

Their operating sector distribution was as follows:

	2012	2011	2010
Advertising and Media Investment Management	**48,662**	47,252	42,424
Consumer Insight	**28,989**	29,204	28,167
Public Relations & Public Affairs	**8,437**	7,869	7,364
Branding & Identity, Healthcare and Specialist Communications	**28,402**	25,646	23,432
	114,490	109,971	101,387

At the end of 2012 staff numbers were 115,711 (2011: 113,615, 2010: 104,052). Including all employees of associated undertakings, this figure was approximately 165,000 at 31 December 2012 (2011: 158,000, 2010: 146,000).

Staff costs include:

	2012 £m	2011 £m	2010 £m
Wages and salaries	**4,289.7**	4,079.4	3,696.8
Cash-based incentive plans	**198.1**	259.4	271.9
Share-based incentive plans (note 22)	**92.8**	78.8	70.4
Social security costs	**524.7**	499.3	450.1
Pension costs (note 23)	**148.7**	135.4	120.6
Severance	**50.8**	53.9	74.3
Other staff costs[1]	**801.3**	766.3	754.6
	6,106.1	5,872.5	5,438.7
Staff cost to revenue ratio	**58.9%**	58.6%	58.3%

Note

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

Included above are charges of £7.9 million (2011: £7.3 million, 2010: £7.7 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 121 to 143.

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

Finance income includes:

	2012 £m	2011 £m	2010 £m
Expected return on pension plan assets (note 23)	**30.0**	32.6	30.6
Income from available for sale investments	**1.2**	0.6	9.3
Interest income	**54.7**	64.1	41.8
	85.9	97.3	81.7

Finance costs include:

	2012 £m	2011 £m	2010 £m
Interest on pension plan liabilities (note 23)	**41.3**	43.8	45.9
Interest on other long-term employee benefits	**1.7**	1.8	1.9
Interest payable and similar charges[1]	**256.8**	251.6	229.0
	299.8	297.2	276.8

Revaluation of financial instruments[2] include:

	2012 £m	2011 £m	2010 £m
Movements in fair value of treasury instruments	**(14.8)**	(12.7)	21.8
Revaluation of put options over non-controlling interests	**(5.1)**	(30.9)	(3.6)
Revaluation of payments due to vendors (earnout agreements)	**15.2**	(6.4)	–
	(4.7)	(50.0)	18.2

Notes

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

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

The majority of the Group's long-term debt is represented by $2,581 million of US dollar bonds at an average interest rate of 5.49%, €1,850 million of Eurobonds at an average interest rate of 5.52% and £1,050 million of sterling bonds including convertible bonds at an average interest rate of 5.96%.

Average borrowings under the Revolving Credit Facilities (note 10) amounted to the equivalent of $186 million at an average interest rate of 1.72% inclusive of margin.

Average borrowings under the US Commercial Paper Program (note 10) amounted to $239 million at an average interest rate of 0.50% inclusive of margin.

7. Taxation

The headline tax rate was 21.2% (2011: 22.0%) and is defined below. The tax rate on reported PBT was 18.1% (2011: 9.1%).

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

Cash taxes paid in the year were £257.0 million (2011: £247.9 million). The cash tax rate on headline PBT was 19.5% (2011: 20.2%).

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

	2012 £m	2011 £m	2010 £m
Corporation tax			
Current year	**335.5**	310.3	276.2
Prior years	**(41.7)**	(47.7)	(1.0)
Exceptional release of prior year provisions	**–**	(106.1)	–
Tax credit relating to restructuring costs	**(15.7)**	–	–
	278.1	156.5	275.2
Deferred tax			
Current year	**(14.4)**	4.5	(21.4)
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	**(86.0)**	(72.4)	(37.5)
Deferred tax on gain on sale of freehold property in New York	**20.0**	–	–
	(80.4)	(67.9)	(58.9)
Prior years	**(0.5)**	3.3	(26.0)
	(80.9)	(64.6)	(84.9)
Tax charge	**197.2**	91.9	190.3

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

	2012 £m	2011 £m	2010 £m
Profit before taxation	**1,091.9**	1,008.4	851.3
Tax at the corporation tax rate of 25%[1]	**273.0**	252.1	212.8
Tax effect of share of results of associates	**(17.4)**	(16.5)	(13.8)
Tax effect of items that are not deductible/(taxable)	**(7.5)**	13.0	(7.8)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**13.9**	9.2	15.4
Origination and reversal of temporary differences not previously recognised	**(39.2)**	20.2	12.0
Tax losses not utilised in the year	**45.4**	49.3	46.2
Tax effect of utilisation of tax losses not previously recognised	**(18.6)**	(41.4)	(47.5)
Tax effect of recognition of tax losses not previously recognised	**(10.2)**	(43.5)	–
Release of prior year provisions in relation to acquired businesses	**(20.6)**	(21.4)	(19.7)
Other prior year adjustments	**(21.6)**	(23.0)	(7.3)
Exceptional release of prior year provisions	**–**	(106.1)	–
Tax charge	**197.2**	91.9	190.3
Effective tax rate on profit before tax	**18.1%**	9.1%	22.4%
Headline tax rate	**21.2%**	22.0%	22.0%

Note

1 Irish non-trading corporation tax rate.

The calculation of the headline tax rate is as follows:

	2012 £m	2011 £m	2010 £m
Headline PBT[1]	1,317.1	1,229.1	1,033.6
Tax charge	197.2	91.9	190.3
Deferred tax on gain on sale of freehold property in New York	(20.0)	–	–
Tax credit relating to restructuring costs	15.7	–	–
Net credit in relation to the amortisation of acquired intangible assets and other goodwill items	86.0	72.4	37.5
Exceptional release of prior year provisions	–	106.1	–
Headline tax charge	278.9	270.4	227.8
Headline tax rate	21.2%	22.0%	22.0%

Note
1 Headline PBT is defined in note 31.

8. Ordinary dividends

Amounts recognised as distributions to equity holders in the year:

	2012	2011	2010	2012	2011	2010
Per share	Pence per share			£m	£m	£m
2011 Second interim dividend	17.14p	11.82p	10.28p	212.8	147.3	126.6
2012 First interim dividend	8.80p	7.46p	5.97p	109.4	92.2	73.8
	25.94p	19.28p	16.25p	322.2	239.5	200.4

	2012	2011	2010	2012	2011	2010
Per ADR[1]	Cents per share			\$m	\$m	\$m
2011 Second interim dividend	137.39¢	91.37¢	80.53¢	341.2	227.7	198.3
2012 First interim dividend	69.75¢	59.80¢	46.15¢	173.5	147.8	114.1
	207.14¢	151.17¢	126.68¢	514.7	375.5	312.4

The Company operated a scrip dividend scheme in 2012 which enabled share owners to receive new fully paid ordinary shares in the Company instead of cash dividends. Included in the £322.3 million dividends recognised in 2012 are cash dividends of £306.6 million and scrip dividends of £15.6 million.

Proposed final dividend for the year ended 31 December 2012:

	2012	2011	2010
Per share	Pence per share		
2012 Final dividend[2]	19.71p	17.14p	11.82p

	2012	2011	2010
Per ADR[1]	Cents per ADR		
2012 Final dividend[2]	156.22¢	137.39¢	91.37¢

Note
1 These figures have been translated for convenience purposes only, using the approximate average rate for the year shown on page 180. 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.
2 Second interim dividend in 2011 and 2010.

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:

	2012	2011	2010
Reported earnings[1] (£m)	822.7	840.1	586.0
Headline earnings (£m) (note 31)	966.2	882.3	730.8
Average shares used in basic EPS calculation (m)	1,243.4	1,242.7	1,233.1
Reported EPS	66.2p	67.6p	47.5p
Headline EPS	77.7p	71.0p	59.3p

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:

	2012	2011	2010
Diluted reported earnings (£m)	848.8	866.2	614.3
Diluted headline earnings (£m)	992.3	908.4	759.1
Average shares used in diluted EPS calculation (m)	1,352.6	1,342.2	1,339.0
Diluted reported EPS	62.8p	64.5p	45.9p
Diluted headline EPS	73.4p	67.7p	56.7p

Diluted EPS has been calculated based on the diluted reported and diluted headline earnings amounts above. On 19 May 2009 the Group issued £450 million 5.75% convertible bonds due May 2014. For the year ended 31 December 2012 these convertible bonds were dilutive and earnings were consequently increased by £26.1 million (2011: £26.1 million, 2010: £28.3 million) for the purpose of the calculation of diluted earnings. In addition, at 31 December 2012, options to purchase 6.3 million ordinary shares (2011: 4.0 million, 2010: 11.6 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:

	2012 m	2011 m	2010 m
Average shares used in basic EPS calculation	1,243.4	1,242.7	1,233.1
Dilutive share options outstanding	4.9	4.5	6.7
Other potentially issuable shares	27.8	18.5	22.7
£450 million 5.75% convertible bonds	76.5	76.5	76.5
Shares used in diluted EPS calculation	1,352.6	1,342.2	1,339.0

At 31 December 2012 there were 1,265,407,107 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 2012 £m	Shares 2011 £m	Debt 2012 £m	Debt 2011 £m
Analysis of changes in financing				
Beginning of year	**232.3**	180.9	**3,893.0**	3,598.2
Ordinary shares issued	**56.0**	31.0	**–**	–
Share cancellations	**(0.7)**	(0.7)	**–**	–
Treasury share cancellations	**(0.6)**	–	**–**	–
Share issue costs paid	**(0.2)**	–	**–**	–
Scrip dividend	**15.6**	21.1	**–**	–
Net increase in drawings on bank loans, corporate bonds and convertible bonds	**–**	–	**380.5**	301.4
Net amortisation of financing costs included in net debt	**–**	–	**6.8**	7.6
Debt acquired	**–**	–	**20.0**	17.5
Other movements	**–**	–	**(18.2)**	(2.7)
Exchange adjustments	**–**	–	**(101.6)**	(29.0)
End of year	**302.4**	232.3	**4,180.5**	3,893.0

Note

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

Shares

At 31 December 2012, the Company's share base was entirely composed of ordinary equity share capital and share premium of £302.4 million (2011: £232.3 million), further details of which are disclosed in note 26.

Debt

US$ bonds The Group has in issue $369 million of 5.875% bonds due June 2014, $600 million of 8% bonds due September 2014 and $812 million of 4.75% bonds due November 2021. In September 2012, the Group issued $500 million of 3.625% bonds due September 2022 and $300 million of 5.125% bonds due September 2042.

Eurobonds The Group has in issue €600 million of 4.375% bonds due December 2013, €500 million of 5.25% bonds due January 2015 and €750 million of 6.625% bonds due May 2016.

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

Revolving Credit Facilities The Group has a five-year Revolving Credit Facility of $1.05 billion and £375 million due November 2016. The Group's borrowing under these facilities, which are drawn down predominantly in US dollars and pounds sterling, averaged the equivalent of $186 million in 2012. The Group had available undrawn committed credit facilities of £1,021.5 million at December 2012 (2011: £972.3 million).

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

US Commercial Paper Program

The Group operates a commercial paper program using the Revolving Credit Facility as a backstop. The average commercial paper outstanding during the year was $239.3 million. There was no US Commercial Paper outstanding at 31 December 2012.

Convertible bonds

The Group has in issue £450 million of 5.75% convertible bonds due May 2014. At the option of the holder, the bonds are convertible into 76,530,612 WPP ordinary shares at an initial share price of £5.88 per share.

The convertible bonds have a nominal value of £450 million at 31 December 2012. In accordance with IAS 39, these bonds have been split between a liability component and an equity component by initially valuing the liability component at fair value based on the present value of future cash flows and then holding it at amortised cost. This fair value has been calculated assuming redemption in May 2014 and using a discount rate of 8.25%, based on the estimated rate of interest that would have applied to a comparable bond issued at that time without the convertible option. The equity component represents the fair value, on initial recognition, of the embedded option to convert the liability into equity of the Group.

The liability element is £435.0 million and the equity component is £44.5 million as at 31 December 2012.

The Group estimates that the fair value of the liability component of the convertible bonds at 31 December 2012 was approximately £453.8 million. This fair value has been calculated by discounting the future cash flows at the market rate.

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:

	2012 £m	2011 £m
Within one year	**(721.4)**	(240.8)
Between one and two years	**(1,244.8)**	(722.2)
Between two and three years	**(529.6)**	(1,259.3)
Between three and four years	**(707.4)**	(524.7)
Between four and five years	**(465.1)**	(787.1)
Over five years	**(1,610.3)**	(1,304.1)
Debt financing under the Revolving Credit Facility and in relation to unsecured loan notes	**(5,278.6)**	(4,838.2)
Short-term overdrafts – within one year	**(586.0)**	(518.4)
Future anticipated cash flows	**(5,864.6)**	(5,356.6)
Effect of discounting/financing rates	**1,098.1**	945.2
Debt financing	**(4,766.5)**	(4,411.4)
Cash and short-term deposits	**1,945.3**	1,946.6
Net debt	**(2,821.2)**	(2,464.8)

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

2012 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	1,913.0	5.53%	n/a	92
	– floating	444.0	n/a	LIBOR	n/a
£	– fixed	550.0	6.07%	n/a	58
	– floating	200.0	n/a	LIBOR	n/a
€	– fixed	690.7	6.50%	n/a	38
	– floating	344.2	n/a	EURIBOR	n/a
¥	– fixed	64.0	2.07%	n/a	11
Other		(25.4)	n/a	n/a	n/a
		4,180.5			

Note

1 Weighted average. These rates do not include the effect of gains on interest rate swap terminations that are written to income over the life of the original instrument. At 31 December 2012 the amount still to be written to income was £0.7 million (2011: £1.2 million) in respect of US dollar swap terminations, to be written to income evenly until June 2014.

2011 Currency		£m	Fixed rate[1]	Floating basis	Period (months)[1]
$	– fixed	1,494.1	6.00%	n/a	63
	– floating	477.9	n/a	LIBOR	n/a
£	– fixed	550.0	6.07%	n/a	70
	– floating	200.0	n/a	LIBOR	n/a
€	– fixed	710.3	6.50%	n/a	50
	– floating	354.0	n/a	EURIBOR	n/a
¥	– fixed	75.4	2.07%	n/a	24
$C[2]	– floating	79.7	n/a	LIBOR	n/a
Other		(48.4)	n/a	n/a	n/a
		3,893.0			

Notes

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.

2 Represents Canadian dollars.

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

	Financial liabilities		Financial assets	
2012	Payable £m	Receivable £m	Payable £m	Receivable £m
Within one year	333.0	262.7	773.9	865.8
Between one and two years	339.9	280.8	753.5	839.8
Between two and three years	454.1	352.5	525.9	608.7
Between three and four years	1.1	0.4	2.4	12.4
Between four and five years	26.1	25.4	226.7	237.4
Over five years	–	–	–	–
	1,154.2	**921.8**	**2,282.4**	**2,564.1**

	Financial liabilities		Financial assets	
2011	Payable £m	Receivable £m	Payable £m	Receivable £m
Within one year	60.5	52.3	167.5	214.3
Between one and two years	328.1	233.3	771.7	869.8
Between two and three years	356.5	284.9	785.1	867.6
Between three and four years	478.5	353.2	537.4	633.9
Between four and five years	1.1	0.6	4.2	37.4
Over five years	26.1	25.5	227.3	237.4
	1,250.8	949.8	2,493.2	2,860.4

11. Analysis of cash flows

The following tables analyse the items included within the main cash flow headings on page 182.

Net cash from operating activities:

	2012 £m	2011 £m	2010 £m
Profit for the year	**894.7**	916.5	661.0
Taxation	**197.2**	91.9	190.3
Revaluation of financial instruments	**4.7**	50.0	(18.2)
Finance costs	**299.8**	297.2	276.8
Finance income	**(85.9)**	(97.3)	(81.7)
Share of results of associates	**(69.4)**	(66.1)	(55.2)
Operating profit	**1,241.1**	1,192.2	973.0
Adjustments for:			
Non-cash share-based incentive plans (including share options)	**92.8**	78.8	70.4
Depreciation of property, plant and equipment	**191.0**	185.8	184.9
Impairment of goodwill	**32.0**	–	10.0
Amortisation and impairment of acquired intangible assets	**171.9**	172.0	170.5
Amortisation of other intangible assets	**33.7**	25.7	25.4
Investment write-downs	**19.6**	32.8	37.5
Gains on disposal of investments	**(26.8)**	(0.4)	(4.1)
Gains on remeasurement of equity interest on acquisition of controlling interest	**(5.3)**	(31.6)	(13.7)
Gain on sale of freehold property in New York	**(71.4)**	–	–
Losses/(gains) on sale of property, plant and equipment	**0.7**	(0.9)	0.7
Operating cash flow before movements in working capital and provisions	**1,679.3**	1,654.4	1,454.6
(Increase)/decrease in inventories and work in progress	**(17.6)**	32.7	(46.3)
Increase in receivables	**(436.4)**	(1.8)	(850.8)
Increase/(decrease) in payables – short-term	**105.3**	(618.5)	1,135.7
Increase in payables – long-term	**4.1**	19.2	10.3
Decrease in provisions	**(43.6)**	(52.5)	(23.4)
Cash generated by operations	**1,291.1**	1,033.5	1,680.1
Corporation and overseas tax paid	**(257.0)**	(247.9)	(207.4)
Interest and similar charges paid	**(228.3)**	(241.4)	(219.7)
Interest received	**56.6**	63.2	50.7
Investment income	**1.2**	0.6	4.2
Dividends from associates	**44.7**	57.2	53.3
Net cash inflow from operating activities	**908.3**	665.2	1,361.2

Acquisitions and disposals:

	2012 £m	2011 £m	2010 £m
Initial cash consideration	(462.0)	(352.3)	(138.6)
Cash and cash equivalents acquired (net)	46.6	98.8	57.0
Earnout payments	(85.7)	(150.0)	(113.3)
Loan note redemptions	(1.0)	(0.8)	(5.1)
Purchase of other investments (including associates)	(111.4)	(68.1)	(23.8)
Proceeds on disposal of investments	47.0	2.6	23.7
Acquisitions and disposals	(566.5)	(469.8)	(200.1)
Cash consideration for non-controlling interests	(20.1)	(62.6)	(15.1)
Net cash outflow	(586.6)	(532.4)	(215.2)

Share repurchases and buy-backs:

	2012 £m	2011 £m	2010 £m
Purchase of own shares by ESOP Trusts	(78.8)	(106.5)	(46.4)
Share cancellations (excluding brokerage fees)	(55.1)	(45.9)	–
Shares purchased into treasury	(0.6)	(29.8)	–
Net cash outflow	(134.5)	(182.2)	(46.4)

Net increase in borrowings:

	2012 £m	2011 £m	2010 £m
Proceeds from issue of $500 million bonds	312.1	319.5	–
Proceeds from issue of $300 million bonds	187.3	–	–
Repayment of debt acquired	(20.0)	(18.1)	–
(Decrease)/increase in drawings on bank loans	(79.7)	–	19.8
Repayment of $30 million TNS private placements	(19.2)	–	–
Net cash inflow	380.5	301.4	19.8

Cash and cash equivalents:

	2012 £m	2011 £m	2010 £m
Cash at bank and in hand	1,721.4	1,833.5	1,877.1
Short-term bank deposits	223.9	113.1	88.1
Overdrafts[1]	(586.0)	(518.4)	(255.4)
Cash and cash equivalents at end of year	1,359.3	1,428.2	1,709.8

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 2012 and 2011 were as follows:

	£m
Cost:	
1 January 2011	9,678.8
Additions[1]	434.6
Revision of earnout estimates	25.9
Exchange adjustments	(150.8)
31 December 2011	9,988.5
Additions[1]	360.8
Revision of earnout estimates	8.6
Exchange adjustments	(315.8)
31 December 2012	10,042.1
Accumulated impairment losses and write-downs:	
1 January 2011	572.5
Exchange adjustments	(14.8)
31 December 2011	557.7
Impairment losses for the year	32.0
Exchange adjustments	(4.8)
31 December 2012	584.9
Net book value:	
31 December 2012	9,457.2
31 December 2011	9,430.8
1 January 2011	9,106.3

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 2012 and 2011 are:

	2012 £m	2011 £m
GroupM	1,964.4	2,037.7
Kantar	1,764.0	1,791.2
Wunderman	1,096.9	1,119.9
Y&R Advertising	984.5	1,025.5
Burson-Marsteller	480.4	489.8
Other	3,167.0	2,966.7
Total goodwill	9,457.2	9,430.8

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

Other intangible assets

The movements in 2012 and 2011 were as follows:

	Brands with an indefinite useful life £m	Acquired intan-gibles £m	Other £m	Total £m
Cost:				
1 January 2011	1,053.7	1,332.5	229.9	2,616.1
Additions	–	–	37.1	37.1
Disposals	–	–	(11.7)	(11.7)
New acquisitions	–	117.6	2.0	119.6
Other movements[1]	–	21.2	1.5	22.7
Exchange adjustments	(17.3)	(7.7)	(5.0)	(30.0)
31 December 2011	1,036.4	1,463.6	253.8	2,753.8
Additions	–	–	39.8	39.8
Disposals	–	–	(19.0)	(19.0)
New acquisitions	–	185.2	1.3	186.5
Other movements[1]	–	12.9	0.3	13.2
Exchange adjustments	(43.3)	(34.1)	(11.9)	(89.3)
31 December 2012	**993.1**	**1,627.6**	**264.3**	**2,885.0**
Amortisation and impairment:				
1 January 2011	–	550.8	160.8	711.6
Charge for the year	–	172.0	25.7	197.7
Disposals	–	–	(11.3)	(11.3)
Other movements	–	(2.6)	(1.0)	(3.6)
Exchange adjustments	–	2.0	(2.5)	(0.5)
31 December 2011	–	722.2	171.7	893.9
Charge for the year	–	171.9	33.7	205.6
Disposals	–	–	(18.4)	(18.4)
Other movements	–	(2.3)	(2.8)	(5.1)
Exchange adjustments	–	(10.2)	(8.2)	(18.4)
31 December 2012	**–**	**881.6**	**176.0**	**1,057.6**
Net book value:				
31 December 2012	**993.1**	**746.0**	**88.3**	**1,827.4**
31 December 2011	1,036.4	741.4	82.1	1,859.9
1 January 2011	1,053.7	781.7	69.1	1,904.5

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 2012 include brand names of £408.8 million (2011: £371.9 million), customer-related intangibles of £287.7 million (2011: £294.1 million), and other assets (including proprietary tools) of £49.5 million (2011: £75.4 million).

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

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

In years prior to 2012, the goodwill impairment review was initially undertaken as at 30 June and then updated as at 31 December which was the annual testing date. For 2012, the annual testing date was changed to 30 September to better align the impairment testing procedures with the financial planning process. This change did not accelerate, delay, avoid, or cause a goodwill impairment charge. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows, using a pre-tax discount rate of 9.5% (2011: 9.5%) and management forecasts for a projection period of up to five years, followed by an assumed annual long-term growth rate of 3.0% (2011: 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.

Goodwill impairment charges of £32.0 million and £nil were recorded in the years ended 31 December 2012 and 2011, respectively. The impairment charge relates to certain underperforming 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.

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

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

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

13. Property, plant and equipment

The movements in 2012 and 2011 were as follows:

	Land £m	Freehold buildings £m	Leasehold buildings £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost:						
1 January 2011	12.4	73.4	672.7	376.0	581.1	1,715.6
Additions	–	0.6	76.2	43.1	96.2	216.1
New acquisitions	–	–	2.5	4.6	6.9	14.0
Disposals	–	(0.9)	(33.2)	(41.0)	(57.8)	(132.9)
Exchange adjustments	–	–	(4.3)	(13.0)	(14.2)	(31.5)
31 December 2011	12.4	73.1	713.9	369.7	612.2	1,781.3
Additions	29.7	71.2	79.6	34.6	83.3	298.4
New acquisitions	–	–	2.3	1.8	4.4	8.5
Disposals	(4.0)	(26.3)	(79.8)	(54.0)	(81.8)	(245.9)
Exchange adjustments	(1.0)	(0.4)	(29.7)	(18.7)	(25.5)	(75.3)
31 December 2012	**37.1**	**117.6**	**686.3**	**333.4**	**592.6**	**1,767.0**
Depreciation:						
1 January 2011	–	28.0	311.7	228.3	439.2	1,007.2
Charge for the year	–	3.2	58.3	42.9	81.4	185.8
Disposals	–	(0.3)	(24.9)	(37.7)	(55.0)	(117.9)
Exchange adjustments	–	(1.4)	(2.0)	(7.9)	(10.8)	(22.1)
31 December 2011	–	29.5	343.1	225.6	454.8	1,053.0
Charge for the year	–	3.2	62.3	40.6	84.9	191.0
Disposals	–	(14.3)	(56.5)	(47.6)	(78.0)	(196.4)
Exchange adjustments	–	(0.6)	(14.3)	(13.2)	(20.8)	(48.9)
31 December 2012	**–**	**17.8**	**334.6**	**205.4**	**440.9**	**998.7**
Net book value:						
31 December 2012	**37.1**	**99.8**	**351.7**	**128.0**	**151.7**	**768.3**
31 December 2011	12.4	43.6	370.8	144.1	157.4	728.3
1 January 2011	12.4	45.4	361.0	147.7	141.9	708.4

At the end of the year, capital commitments contracted, but not provided for in respect of property, plant and equipment were £47.0 million (2011: £127.4 million). The decrease is due to fewer significant property development projects in North America.

14. Interests in associates, joint ventures and other investments

The movements in 2012 and 2011 were as follows:

	Net assets of associates and joint ventures £m	Goodwill and other intangibles of associates and joint ventures £m	Total associates and joint ventures £m	Other investments £m
1 January 2011	372.8	419.3	792.1	173.7
Additions	39.3	–	39.3	29.3
Goodwill arising on acquisition of new associates	–	3.4	3.4	–
Share of results of associate undertakings (note 4)	66.1	–	66.1	–
Dividends and other movements	(67.3)	18.3	(49.0)	–
Exchange adjustments	(0.7)	(4.8)	(5.5)	–
Reclassification (to)/from subsidiaries	(16.0)	(25.0)	(41.0)	7.3
Revaluation of other investments	–	–	–	11.3
Amortisation of other intangible assets	–	(2.1)	(2.1)	–
Write-downs	(2.0)	–	(2.0)	(30.8)
31 December 2011	392.2	409.1	801.3	190.8
Additions	32.1	–	32.1	24.8
Goodwill arising on acquisition of new associates	–	54.5	54.5	–
Share of results of associate undertakings (note 4)	69.4	–	69.4	–
Dividends and other movements	(49.3)	15.8	(33.5)	–
Exchange adjustments	(28.7)	(29.6)	(58.3)	(6.1)
Disposals	(9.6)	–	(9.6)	(14.4)
Reclassification from subsidiaries	35.2	2.9	38.1	–
Revaluation of other investments	–	–	–	(3.5)
Amortisation of other intangible assets	–	(2.3)	(2.3)	–
Write-downs	(0.7)	(3.8)	(4.5)	(15.1)
31 December 2012	**440.6**	**446.6**	**887.2**	**176.5**

The investments included above as 'other investments' represent investments in equity securities that present the Group with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of the listed securities are based on quoted market prices. For unlisted securities, where market value is not available, the Group has estimated relevant fair values on the basis of publicly available information from outside sources or on the basis of discounted cash flow models where appropriate.

The carrying values of the Group's associates and joint ventures are reviewed for impairment in accordance with the Group's accounting policies.

The Group's principal associates and joint ventures at 31 December 2012 included:

	% owned	Country of incorporation
Asatsu-DK Inc	24.3	Japan
Barrows Design and Manufacturing (Pty) Limited	35.0	South Africa
CHI&Partners Limited	49.9	UK
Chime Communications PLC	21.1	UK
CTR Market Research Co., Ltd	46.0	China
CVSC Sofres Media Co Limited	40.0	China
GIIR Inc	28.8	Korea
Globant	20.3	Argentina
High Co SA	34.1	France
IBOPE Latinoamericana SA	41.8	Brazil
Scangroup Limited	31.8	Kenya
Singleton Ogilvy & Mather (Holdings) Pty Limited	33.3	Australia
STW Communications Group Limited[1]	18.6	Australia
The Jupiter Drawing Room (Proprietary) Limited	49.0	South Africa
WVI Marketing Communications Group Limited	50.0	Russia

Note

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

The market value of the Group's shares in its principal listed associate undertakings at 31 December 2012 was as follows: Asatsu-DK Inc: £150.7 million, Chime Communications PLC: £40.0 million, High Co SA: £15.2 million, GIIR Inc: £18.3 million, Scangroup Limited: £40.6 million, and STW Communications Group Limited: £53.2 million (2011: Asatsu-DK Inc: £175.0 million, Chime Communications PLC: £20.8 million, High Co SA: £16.9 million, GIIR Inc: £22.9 million, Scangroup Limited: £19.2 million, and STW Communications Group Limited: £41.7 million).

The carrying value (including goodwill and other intangibles) of these equity interests in the Group's consolidated balance sheet at 31 December 2012 was as follows: Asatsu-DK Inc: £197.0 million, Chime Communications PLC: £36.8 million, High Co SA: £32.4 million, GIIR Inc: £26.7 million, Scangroup Limited: £21.0 million, and STW Communications Group Limited: £67.8 million (2011: Asatsu-DK Inc: £229.4 million, Chime Communications PLC: £29.4 million, High Co SA: £32.4 million, GIIR Inc: £24.0 million, Scangroup Limited: £20.4 million, and STW Communications Group Limited: £68.3 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 2012.

	2012 £m	2011 £m	2010 £m
Income statement			
Revenue	2,268.0	2,127.2	2,142.3
Operating profit	262.1	293.7	229.9
Profit before taxation	262.8	316.5	245.1
Profit for the year	176.5	190.5	179.1

	2012 £m	2011 £m
Balance sheet		
Assets	4,956.5	4,388.2
Liabilities	(2,424.0)	(2,191.8)
Net assets	2,532.5	2,196.4

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

At the end of the year, capital commitments contracted, but not provided for in respect of interests in associates and other investments were £18.8 million (2011: £40.0 million).

15. Deferred tax

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

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

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

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

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

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

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

	Gross £m	Offset £m	As reported £m
2012			
Deferred tax assets	221.2	(130.0)	**91.2**
Deferred tax liabilities	(810.3)	130.0	**(680.3)**
	(589.1)	–	**(589.1)**
2011			
Deferred tax assets	151.4	(65.4)	**86.0**
Deferred tax liabilities	(806.8)	65.4	**(741.4)**
	(655.4)	–	**(655.4)**

The following are the major gross deferred tax assets recognised by the Group and movements thereon in 2012 and 2011:

	Tax losses £m	Retirement benefit obligations £m	Property, plant & equipment £m	Share-based payments £m	Other short-term temporary differences £m	Total £m
1 January 2011	6.3	13.1	2.0	49.6	66.6	137.6
Acquisition of subsidiaries	0.7	–	–	–	–	0.7
Credit/(charge) to income	24.4	–	0.8	(2.8)	3.8	26.2
Credit/(charge) to other comprehensive income	–	0.5	–	–	(0.3)	0.2
Charge to equity	–	–	–	(11.8)	–	(11.8)
Exchange adjustments	0.2	(0.1)	(0.1)	(0.3)	(1.2)	(1.5)
31 December 2011	31.6	13.5	2.7	34.7	68.9	151.4
Credit/(charge) to income	5.7	3.0	41.2	9.9	(0.2)	59.6
Credit to other comprehensive income	–	7.7	–	–	–	7.7
Credit to equity	–	–	–	13.3	–	13.3
Transfer to corporation tax	–	–	–	–	3.9	3.9
Exchange adjustments	(1.7)	(0.5)	(0.2)	(2.0)	(10.3)	(14.7)
31 December 2012	**35.6**	**23.7**	**43.7**	**55.9**	**62.3**	**221.2**

Other short-term temporary differences comprise a number of items, none of which is individually significant to the Group's consolidated balance sheet. At 31 December 2012 the balance related to temporary differences in relation to accounting provisions, tax credits, and tax deductible goodwill.

In addition the Group has recognised the following gross deferred tax liabilities and movements thereon in 2012 and 2011:

	Brands and other intangibles £m	Associate earnings £m	Goodwill £m	Property, plant & equipment £m	Other short-term temporary differences £m	Total £m
1 January 2011	688.1	21.2	92.4	0.1	7.4	809.2
Acquisition of subsidiaries	44.9	–	–	–	–	44.9
(Credit)/charge to income	(60.8)	1.3	17.7	–	3.4	(38.4)
Exchange adjustments	(9.7)	0.4	0.4	–	–	(8.9)
31 December 2011	662.5	22.9	110.5	0.1	10.8	806.8
Acquisition of subsidiaries	59.4	–	–	–	1.9	61.3
(Credit)/charge to income	(71.8)	1.5	21.1	30.2	(2.2)	(21.2)
Exchange adjustments	(25.4)	(3.4)	(5.9)	–	(1.9)	(36.6)
31 December 2012	**624.7**	**21.0**	**125.7**	**30.3**	**8.6**	**810.3**

At the balance sheet date, the Group has gross tax losses and other temporary differences of £4,730.9 million (2011: £4,996.0 million) available for offset against future profits. Deferred tax assets have been recognised in respect of the tax benefit of £687.9 million (2011: £439.0 million) of such tax losses and other temporary differences. No deferred tax asset has been recognised in respect of the remaining £4,043.0 million (2011: £4,557.0 million) of losses and other temporary differences as the Group considers that there will not be enough taxable profits in the entities concerned such that any additional asset could be considered recoverable. Included in the total unrecognised temporary differences are losses of £398.7 million that will expire by 2022, £16.9 million that will expire by 2027, £58.9 million that will expire by 2029, £4.5 million that will expire by 2032 and £2,830.3 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 £1,846.3 million. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future.

16. Inventory and work in progress

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

	2012 £m	2011 £m
Work in progress	**343.3**	327.0
Inventory	**4.9**	6.9
	348.2	333.9

17. Trade and other receivables

The following are included in trade and other receivables:

Amounts falling due within one year:

	2012 £m	2011 £m
Trade receivables (net of bad debt provision)	6,204.2	6,305.1
VAT and sales taxes recoverable	75.6	76.2
Prepayments and accrued income	2,232.2	2,044.0
Other debtors	495.0	494.4
	9,007.0	8,919.7

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

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

2011	Carrying amount at 31 December 2011 £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	6,305.1	3,887.3	1,624.5	648.8	119.5	6.2	18.8
Other financial assets	489.8	330.2	51.8	42.4	8.7	22.2	34.5
	6,794.9	4,217.5	1,676.3	691.2	128.2	28.4	53.3

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:

	2012 £m	2011 £m
Prepayments and accrued income[1]	29.5	36.6
Other debtors[1]	73.9	87.6
Fair value of derivatives	141.7	184.9
	245.1	309.1

Note

[1] Comparative figures have been restated to be consistent with current year presentation.

Movements on bad debt provisions were as follows:

	2012 £m	2011 £m
Balance at beginning of year	125.7	114.6
New acquisitions	0.7	4.0
Charged to operating costs	18.1	31.1
Exchange adjustments	(4.1)	(1.9)
Utilisations and other movements	(35.1)	(22.1)
Balance at end of year	105.3	125.7

The allowance for bad and doubtful debts is equivalent to 1.7% (2011: 2.0%) of gross trade accounts receivable.

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

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

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

	2012 £m	2011 £m
Trade payables	7,227.5	7,292.7
Other taxation and social security	433.6	420.5
Payments due to vendors (earnout agreements)	33.4	96.8
Liabilities in respect of put option agreements with vendors	64.3	79.2
Deferred income	880.2	1,002.3
Fair value of derivatives	31.6	0.5
Share purchases – close period commitments	18.2	–
Other creditors and accruals	2,219.0	2,273.5
	10,907.8	11,165.5

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

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

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

	2012 £m	2011 £m
Payments due to vendors (earnout agreements)	160.6	137.3
Liabilities in respect of put option agreements with vendors	80.0	89.1
Fair value of derivatives	79.7	139.9
Other creditors and accruals	191.7	186.8
	512.0	553.1

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

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

	2012 £m	2011 £m
Within one year	33.4	96.8
Between one and two years	35.7	31.6
Between two and three years	28.7	25.2
Between three and four years	30.4	18.6
Between four and five years	63.8	28.9
Over five years	2.0	33.0
	194.0	234.1

	2012 £m	2011 £m
At the beginning of the year	234.1	275.3
Earnouts paid (note 11)	(85.7)	(150.0)
New acquisitions	61.5	80.4
Revision of estimates taken to goodwill (note 12)	8.6	25.9
Revaluation of payments due to vendors (note 6)	(15.2)	6.4
Exchange adjustments	(9.3)	(3.9)
At the end of the year	194.0	234.1

As of 31 December 2012, 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 £322 million (2011: £nil to £256 million) and £nil to £819 million (2011: £nil to £931 million), respectively. The decrease in the maximum potential undiscounted amount of future payments for all earnout agreements is due to earnout arrangements that have completed and payments made on active arrangements, partially offset by earnout arrangements related to new acquisitions during the year.

20. Bank overdrafts, bonds and bank loans

Amounts falling due within one year:

	2012 £m	2011 £m
Bank overdrafts	586.0	518.4
Corporate bonds and bank loans	499.9	–
	1,085.9	518.4

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

Amounts falling due after more than 1 year:

	2012 £m	2011 £m
Corporate bonds and bank loans	3,680.6	3,893.0

The Group estimates that the fair value of convertible and corporate bonds is £4,759.7 million at 31 December 2012 (2011: £4,232.6 million). The Group considers that the carrying amount of bank loans approximates their fair value.

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

	2012 £m	2011 £m
Within one year	1,085.9	518.4
Between one and two years	1,071.2	540.9
Between two and three years	408.4	1,078.9
Between three and four years	607.8	438.9
Between four and five years	433.0	698.0
Over five years	1,160.2	1,136.3
	4,766.5	4,411.4

21. Provisions for liabilities and charges

The movements in 2012 and 2011 were as follows:

	Property £m	Other £m	Total £m
1 January 2011	58.4	103.2	161.6
Charged to the income statement	11.8	16.5	28.3
New acquisitions	4.3	15.5	19.8
Utilised	(10.5)	(13.3)	(23.8)
Released to the income statement	(6.3)	(6.2)	(12.5)
Transfers	(9.6)	(8.7)	(18.3)
Exchange adjustments	0.2	(1.3)	(1.1)
31 December 2011	48.3	105.7	154.0
Charged to the income statement	8.9	14.8	23.7
New acquisitions	0.7	11.4	12.1
Utilised	(8.0)	(18.8)	(26.8)
Released to the income statement	(6.8)	(5.4)	(12.2)
Transfers	(0.7)	(7.7)	(8.4)
Exchange adjustments	(1.1)	(4.7)	(5.8)
31 December 2012	41.3	95.3	136.6

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

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

22. Share-based payments

Charges for share-based incentive plans were as follows:

	2012 £m	2011 £m	2010 £m
Share-based payments	92.8	78.8	70.4

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

As of 31 December 2012, there was £167.0 million (2011: £149.1 million) of total unrecognised compensation cost related to the Group's restricted stock plans. That cost is expected to be recognised over a period of one to two years.

Further information on stock options is provided in note 26.

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

Renewed Leadership Equity Acquisition Plan (Renewed LEAP) and Leadership Equity Acquisition Plan III (LEAP III)
Under Renewed LEAP and LEAP III, the most senior executives of the Group, including certain executive directors, commit WPP shares ('investment shares') in order to have the opportunity to earn additional WPP shares ('matching shares'). The number of matching shares which a participant can receive at the end of the fixed performance period of five years is dependent on the performance (based on the Total Share Owner Return (TSR)) of the Company over that period against a comparator group of other listed communications services companies. The maximum possible number of matching shares for each of the 2012, 2011, 2010, 2009 and 2008 grants is five shares for each investment share. The 2008 Renewed LEAP plan vested in March 2013 at a match of 4.29 shares for each investment share.

Performance Share Awards (PSA)
Grants of 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
Stock option grants under the executive stock option plan were not significant in 2012, 2011 or 2010 as the Group made grants of restricted stock (to be satisfied by stock from one of the Group's ESOP Trusts) to participants instead. Performance conditions include continued employment over the three-year vesting period.

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

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

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

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

Movement on ordinary shares granted for significant restricted stock plans:

	Non-vested 1 January 2012 number m	Granted number m	Lapsed number m	Vested number m	Non-vested 31 December 2012 number m
Renewed LEAP/LEAP III[1]	4.5	1.8	(0.1)	(1.6)	**4.6**
Performance Share Awards (PSA)	4.9	3.9	(0.4)	(1.4)	**7.0**
Leaders, Partners and High Potential Group	10.9	3.4	(0.8)	(3.7)	**9.8**
Weighted average fair value (pence per share):					
Renewed LEAP/LEAP III[1]	633p	745p	375p	633p	**683p**
Performance Share Awards (PSA)	757p	824p	792p	705p	**802p**
Leaders, Partners and High Potential Group	657p	781p	671p	546p	**740p**

Note
1 The number of shares granted represents the 'investment shares' committed by participants at grant date for the 2012 LEAP III plan in addition to the matched shares awarded on vest date for the 2007 Renewed LEAP plan which vested in March 2012. The actual number of shares that vest for each Renewed LEAP/LEAP III plan is dependent on the extent to which the relevant performance criteria are satisfied.

The total fair value of shares vested for all the Group's restricted stock plans during the year ended 31 December 2012 was £47.5 million (2011: £76.5 million, 2010: £61.8 million).

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

	2012 £m	2011 £m	2010 £m
Defined contribution plans	**124.9**	114.7	101.5
Defined benefit plans charge to operating profit	**23.8**	20.7	19.1
Pension costs (note 5)	**148.7**	135.4	120.6
Expected return on pension plan assets (note 6)	**(30.0)**	(32.6)	(30.6)
Interest on pension plan liabilities (note 6)	**41.3**	43.8	45.9
	160.0	146.6	135.9

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 2012.

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 2012 amounted to £56.5 million (2011: £66.8 million, 2010: £53.3 million). Employer contributions and benefit payments in 2013 are expected to be in the range of £50 million to £70 million depending on the performance of the assets.

(a) Assumptions
The main weighted average assumptions used for the actuarial valuations at 31 December are shown in the following table:

	2012 % pa	2011 % pa	2010 % pa	2009 % pa
UK				
Discount rate[1]	4.2	4.7	5.4	5.7
Rate of increase in salaries	2.9	3.0	3.4	3.5
Rate of increase in pensions in payment	3.9	4.0	4.0	4.2
Inflation	2.4	2.5	3.2	3.5
Expected rate of return on equities	7.5	7.5	7.5	7.5
Expected rate of return on bonds[1]	3.6	3.6	4.5	4.8
Expected rate of return on insured annuities	4.2	4.7	5.4	5.7
Expected rate of return on property	n/a	6.9	6.9	6.9
Expected rate of return on cash and other	4.3	3.9	4.0	4.4
Weighted average return on assets	4.3	4.6	5.4	5.6
North America				
Discount rate[1]	3.5	4.4	5.1	5.7
Rate of increase in salaries	3.0	3.0	3.0	3.0
Inflation	2.5	2.5	2.5	2.5
Expected rate of return on equities	7.9	7.9	7.9	7.9
Expected rate of return on bonds[1]	3.6	4.1	4.3	4.7
Expected rate of return on cash and other	3.6	3.9	6.4	6.6
Weighted average return on assets	5.3	5.9	6.4	6.5
Western Continental Europe				
Discount rate[1]	3.6	4.8	5.3	5.5
Rate of increase in salaries	2.4	2.7	2.7	2.7
Rate of increase in pensions in payment	2.0	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.1
Expected rate of return on equities	7.1	7.1	7.1	7.8
Expected rate of return on bonds[1]	2.7	3.8	4.4	4.1
Expected rate of return on property	5.4	6.1	6.1	6.5
Expected rate of return on cash and other	4.0	4.3	4.6	4.6
Weighted average return on assets	4.3	4.7	5.0	5.1
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe				
Discount rate[1]	4.1	4.8	4.0	4.2
Rate of increase in salaries	6.1	5.7	4.4	4.2
Inflation	4.7	4.8	5.1	4.9
Expected rate of return on equities	8.7	n/a	10.0	10.1
Expected rate of return on bonds[1]	4.4	7.3	8.0	8.2
Expected rate of return on cash and other	5.6	5.4	1.0	1.1
Weighted average return on assets	5.3	5.8	3.4	3.6

Note
1 The assumptions used for the discount rates are based on high-quality corporate bond yields, whereas the assumptions used for the expected rate of return on bonds reflect the yield expected on actual bonds held.

There are a number of areas in pension accounting that involve judgements made by management based on advice of qualified advisors. These include establishing the long-term expected rates of investment return on pension assets, mortality assumptions, discount rates, inflation, rate of increase in pensions in payment and salary increases.

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. 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 and the expected compound return that can reasonably be expected for the portfolio to earn over time, which reflects forward-looking economic assumptions. Management reviews the expected long-term rates of return on an annual basis and revises them as appropriate.

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. The studies performed at the time these assumptions were set support the reasonableness of the return assumptions based on the target allocation of investment classes and the then-current market conditions.

At 31 December 2012, the life expectancies underlying the value of the accrued liabilities for the main defined benefit pension plans operated by the Group were as follows:

Years life expectancy after age 65	All plans	North America	UK	Western Continental Europe	Other[1]
– current pensioners (at age 65) – male	21.9	20.4	24.4	20.5	19.3
– current pensioners (at age 65) – female	23.9	22.6	25.6	23.6	24.7
– future pensioners (current age 45) – male	24.1	22.5	26.5	23.0	19.3
– future pensioners (current age 45) – female	26.0	24.5	27.9	25.6	24.7

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

The life expectancies after age 65 at 31 December 2011 were 20.9 years and 22.8 years for male and female current pensioners (at age 65) respectively, and 22.4 years and 24.0 years for male and female future pensioners (current age 45), respectively.

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

For a 0.25% increase or decrease in the discount rate at 31 December 2012, the effect on the year-end 2012 plan liabilities would be a decrease or increase, respectively, of approximately £34 million.

(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:

	2012 £m	%	2011 £m	%	2010 £m	%
Equities	145.0	20.4	168.7	25.8	188.2	29.8
Bonds	282.3	39.8	271.4	41.5	245.7	38.9
Insured annuities	74.5	10.5	67.6	10.4	66.3	10.5
Property	0.8	0.1	9.4	1.4	9.6	1.5
Cash and other	207.2	29.2	136.6	20.9	121.5	19.3
Total fair value of assets	709.8	100.0	653.7	100.0	631.3	100.0
Present value of liabilities	(1,044.1)		(934.5)		(871.2)	
Deficit in the plans	(334.3)		(280.8)		(239.9)	
Irrecoverable surplus	(1.0)		(1.1)		(0.9)	
Unrecognised past service cost	(0.3)		(0.4)		(0.7)	
Net liability[1]	(335.6)		(282.3)		(241.5)	
Plans in surplus	1.5		5.6		2.8	
Plans in deficit	(337.1)		(287.9)		(244.3)	

Note

[1] The related deferred tax asset is discussed in note 15.

The total fair value of assets, present value of pension plan liabilities and deficit in the plans were £588.1 million, £836.1 million and £248.0 million in 2009 and £550.4 million, £819.1 million and £268.7 million in 2008, respectively.

Deficit in plans by region	2012 £m	2011 £m	2010 £m
UK	(9.4)	(1.6)	(3.5)
North America	(193.8)	(172.5)	(144.4)
Western Continental Europe	(100.0)	(84.5)	(75.9)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(31.1)	(22.2)	(16.1)
Deficit in the plans	(334.3)	(280.8)	(239.9)

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 2012, 2011 and 2010 between funded and unfunded pension plans.

	2012 Deficit £m	2012 Present value of liabilities £m	2011 Deficit £m	2011 Present value of liabilities £m	2010 Deficit £m	2010 Present value of liabilities £m
Funded plans by region						
UK	(9.4)	(366.6)	(1.6)	(327.8)	(3.5)	(305.5)
North America	(115.6)	(375.0)	(93.1)	(340.2)	(66.8)	(306.5)
Western Continental Europe	(45.5)	(129.1)	(36.4)	(108.0)	(29.7)	(103.8)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(5.1)	(14.7)	(2.3)	(11.1)	(5.6)	(21.1)
Deficit/liabilities in the funded plans	(175.6)	(885.4)	(133.4)	(787.1)	(105.6)	(736.9)
Unfunded plans by region						
UK	–	–	–	–	–	–
North America	(78.2)	(78.2)	(79.4)	(79.4)	(77.6)	(77.6)
Western Continental Europe	(54.5)	(54.5)	(48.1)	(48.1)	(46.2)	(46.2)
Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe	(26.0)	(26.0)	(19.9)	(19.9)	(10.5)	(10.5)
Deficit/liabilities in the unfunded plans	(158.7)	(158.7)	(147.4)	(147.4)	(134.3)	(134.3)
Deficit/liabilities in the plans	(334.3)	(1,044.1)	(280.8)	(934.5)	(239.9)	(871.2)

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 income and finance costs and amounts recognised in the consolidated statement of comprehensive income (OCI):

	2012 £m	2011 £m	2010 £m
Current service cost	23.8	23.7	23.3
Past service income	(0.2)	(2.8)	(0.6)
Gain on settlements and curtailments	0.2	(0.2)	(3.6)
Charge to operating profit	23.8	20.7	19.1
Expected return on pension plan assets	(30.0)	(32.6)	(30.6)
Interest on pension plan liabilities	41.3	43.8	45.9
Charge to profit before taxation for defined benefit plans	35.1	31.9	34.4
Gain/(loss) on pension plan assets relative to expected return	40.1	(5.7)	31.9
Experience (loss)/gain arising on the plan liabilities	(1.6)	(3.9)	3.4
Changes in assumptions underlying the present value of the plan liabilities	(122.5)	(62.2)	(37.9)
Change in irrecoverable surplus	0.1	(0.2)	2.2
Actuarial loss recognised in OCI	(83.9)	(72.0)	(0.4)

As at 31 December 2012 the cumulative amount of net actuarial losses recognised in equity since 1 January 2001 was £336.6 million (2011: £252.7 million, 2010: £180.7 million). Of this amount, a net loss of £235.5 million was recognised since the 1 January 2004 adoption of IAS 19.

(d) Movement in plan liabilities

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

	2012 £m	2011 £m	2010 £m
Plan liabilities at beginning of year	934.5	871.2	836.1
Service cost	23.8	23.7	23.3
Interest cost	41.3	43.8	45.9
Actuarial loss	124.1	66.1	34.5
Benefits paid	(56.9)	(59.5)	(57.2)
(Gain)/loss due to exchange rate movements	(25.3)	(2.0)	9.7
Settlements and curtailments	(1.7)	(13.7)	(26.4)
Other[1]	4.3	4.9	5.3
Plan liabilities at end of year	1,044.1	934.5	871.2

Note

[1] Other includes disposals, acquisitions, plan participants' contributions, plan amendments 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:

	2012 £m	2011 £m	2010 £m
Fair value of plan assets at beginning of year	653.7	631.3	588.1
Expected return on plan assets	30.0	32.6	30.6
Actuarial gain/(loss) on plan assets	40.1	(5.7)	31.9
Employer contributions	56.5	66.8	53.3
Benefits paid	(56.9)	(59.5)	(57.2)
(Loss)/gain due to exchange rate movements	(13.9)	(1.3)	5.9
Settlements	(1.9)	(13.5)	(22.8)
Other[1]	2.2	3.0	1.5
Fair value of plan assets at end of year	709.8	653.7	631.3
Actual return on plan assets	70.1	26.9	62.5

Note

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

(f) History of experience gains and losses

	2012 £m	2011 £m	2010 £m
Gain/(loss) on pension plan assets relative to expected return:			
Amount	40.1	(5.7)	31.9
Percentage of plan assets	5.6%	(0.9%)	5.1%
Experience (loss)/gain arising on the plan liabilities:			
Amount	(1.6)	(3.9)	3.4
Percentage of the present value of the plan liabilities	(0.2%)	(0.4%)	0.4%
Total loss recognised in OCI:			
Amount	(83.9)	(72.0)	(0.4)
Percentage of the present value of the plan liabilities	(8.0%)	(7.7%)	(0.0%)

The experience gain/(loss) on pension plan assets and plan liabilities was £44.0 million and (£7.6) million in 2009 and (£93.7) million and £4.4 million in 2008, respectively.

24. Risk management policies

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

The Group effects these currency net asset hedges by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars, pounds sterling and euros. Borrowings in these currencies represented 98.5% of the Group's gross indebtedness at 31 December 2012 (at $3,828 million, £750 million and €1,274 million) and 96.7% of the Group's average gross debt during the course of 2012 (at $3,356 million, £767 million and €1,274 million).

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

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

Including the effect of interest rate and cross-currency swaps, 81.2% of the year-end US dollar net debt is at fixed rates averaging 5.53% for an average period of 92 months; 73.3% of the sterling net debt is at a fixed rate of 6.07% for an average period of 58 months; and 66.7% of the euro net debt is at fixed rates averaging 6.50% for an average period of 38 months.

Other than fixed rate debt, the Group's other fixed rates are achieved principally through interest rate swaps with the Group's bankers. The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2012 no forward rate agreements or interest rate caps were in place. These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowings and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis.

Going concern and liquidity risk
In considering going concern and liquidity risk, the directors have reviewed the Group's future cash requirements and earnings projections. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the Group should be able to operate within its current facilities and comply with its banking covenants for the foreseeable future and therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis.

At 31 December 2012, the Group has access to £5.2 billion of committed bank facilities with maturity dates spread over the years 2013 to 2042 as illustrated below:

	£m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018+ £m
US bond $300m (5.125% '42)	**184.7**						184.7
US bond $500m (3.625% '22)	**307.8**						307.8
US bond $812m (4.75% '21)	**500.2**						500.2
£ bonds £200m (6.375% '20)	**200.0**						200.0
£ bonds £400m (6.0% '17)	**400.0**					400.0	
Bank revolver ($1,050m and £375m)	**1,021.5**				1,021.5		
Eurobonds €750m (6.625% '16)	**609.4**				609.4		
Eurobonds €500m (5.25% '15)	**406.3**			406.3			
£450m convertible bonds (5.75% '14)	**450.0**		450.0				
US bond $600m (8.0% '14)	**369.4**		369.4				
US bond $369m (5.875% '14)	**227.0**		227.0				
TNS private placements $25m	**15.4**		15.4				
Eurobonds €600m (4.375% '13)	**487.5**	487.5					
Total committed facilities available	**5,179.2**	**487.5**	**1,061.8**	**406.3**	**1,630.9**	**400.0**	**1,192.7**
Drawn down facilities at 31 December 2012	**4,157.7**	487.5	1,061.8	406.3	609.4	400.0	1,192.7
Undrawn committed credit facilities	**1,021.5**						
Drawn down facilities at 31 December 2012	**4,157.7**						
Net cash at 31 December 2012	**(1,359.3)**						
Other adjustments	**22.8**						
Net debt at 31 December 2012	**2,821.2**						

The Group's borrowings are evenly distributed between fixed and floating rate debt. Given the strong cash generation of the business, its debt maturity profile and available facilities, the directors believe the Group has sufficient liquidity to match its requirements for the foreseeable future.

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

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

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

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

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

The Group's credit risk is primarily attributable to its trade receivables. The majority of the Group's trade receivables are due from large national or multinational companies where the risk of default is considered low. The amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. A relatively small number of clients make up a significant percentage of the Group's debtors, but no single client represents more than 6% of total trade receivables as at 31 December 2012.

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

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

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

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

	2012 £m	2011 £m
US dollar	85.3	91.5
Euro	69.8	71.8

Interest rate risk
A one percentage point increase in market interest rates for all currencies in which the Group had cash and borrowings at 31 December 2012 would increase profit before tax by approximately £4.0 million (2011: £3.7 million). A one percentage decrease in market interest rates would have an equal and opposite effect. This has been calculated by applying the interest rate change to the Group's variable rate cash and borrowings.

25. Financial instruments

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

At 31 December 2012, the fair value of the Group's currency derivatives is estimated to be a net liability of approximately £44.4 million (2011: £75.5 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £60.8 million (2011: £57.9 million) assets included in trade and other receivables and £105.2 million (2011: £133.4 million) liabilities included in trade and other payables. The amounts taken to and deferred in equity during the year for currency derivatives that are designated and effective hedges was a credit of £42.7 million (2011: charge of £1.9 million) for net investment hedges and a charge of £1.0 million (2011: £14.0 million) for cash flow hedges.

Changes in the fair value relating to the ineffective portion of the currency derivatives amounted to a loss of £9.4 million (2011: gain of £3.1 million, 2010: gain of £11.7 million) which is included in the revaluation of financial instruments for the year. This loss resulted from a £32.3 million gain on hedging instruments and a £41.7 million loss on hedged items.

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

At the balance sheet date, the total nominal amount of outstanding forward foreign exchange contracts not designated as hedges was £63.6 million (2011: £124.4 million). The Group estimates the fair value of these contracts to be a net asset of £0.5 million (2011: £2.6 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 nominal values of €600 million have fixed interest receipts at 4.38% up until December 2013 and have floating interest payments averaging EURIBOR plus 0.56%. Contracts with a nominal value of €500 million have fixed interest receipts of 5.25% up until January 2015 and have floating interest payments averaging EURIBOR plus 0.80%. Contracts with a nominal value of €100 million have fixed interest payments of 5.56% until June 2014 and have floating rate receipts averaging EURIBOR plus 0.96%.

Contracts with a nominal value of £200 million have fixed interest receipts of 6.00% up until April 2017 and have floating rate payments averaging LIBOR plus 0.64%.

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

The fair value of interest rate swaps entered into at 31 December 2012 is estimated to be a net asset of approximately £102.8 million (2011: £121.0 million). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £108.7 million (2011: £127.5 million) assets included in trade and other receivables and £5.9 million (2011: £6.5 million) liabilities included in trade and other payables.

Changes in the fair value relating to the ineffective portion of interest rate swaps amounted to a gain of £0.6 million (2011: loss of £9.5 million, 2010: gain of £12.6 million) which is included in the revaluation of financial instruments for the year. This gain resulted from a £19.3 million loss on hedging instruments and a £19.9 million gain on hedged items.

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

	Derivatives in designated hedge relationships £m	Held for trading £m	Loans & receiv-ables £m	Available for sale £m	Amortised cost £m	Carrying value £m
2012						
Other investments	–	–	–	176.5	–	176.5
Cash and short-term deposits	–	–	1,945.3	–	–	1,945.3
Bank overdrafts and loans	–	–	–	–	(1,085.9)	(1,085.9)
Bonds and bank loans	–	–	–	–	(3,680.6)	(3,680.6)
Trade and other receivables: amounts falling due within one year	–	–	6,605.4	–	–	6,605.4
Trade and other receivables: amounts falling due after more than one year	–	–	69.7	–	–	69.7
Trade and other payables: amounts falling due within one year	–	–	–	–	(7,306.5)	(7,306.5)
Trade and other payables: amounts falling due after more than one year	–	–	–	–	(14.2)	(14.2)
Derivative assets	169.5	0.7	–	–	–	170.2
Derivative liabilities	(111.1)	(0.2)	–	–	–	(111.3)
Share purchases – close period commitments	–	(18.2)	–	–	–	(18.2)
Payments due to vendors (earnout agreements)	–	(194.0)	–	–	–	(194.0)
Liabilities in respect of put options	–	(144.3)	–	–	–	(144.3)
	58.4	(356.0)	8,620.4	176.5	(12,087.2)	(3,587.9)

	Derivatives in designated hedge relationships £m	Held for trading £m	Loans & receiv-ables £m	Available for sale £m	Amortised cost £m	Carrying value £m
2011						
Other investments	–	–	–	190.8	–	190.8
Cash and short-term deposits	–	–	1,946.6	–	–	1,946.6
Bank overdrafts and loans	–	–	–	–	(518.4)	(518.4)
Bonds and bank loans	–	–	–	–	(3,893.0)	(3,893.0)
Trade and other receivables: amounts falling due within one year	–	–	6,718.4	–	–	6,718.4
Trade and other receivables: amounts falling due after more than one year	–	–	76.5	–	–	76.5
Trade and other payables: amounts falling due within one year	–	–	–	–	(7,376.7)	(7,376.7)
Trade and other payables: amounts falling due after more than one year	–	–	–	–	(10.2)	(10.2)
Derivative assets	185.4	3.1	–	–	–	188.5
Derivative liabilities	(139.9)	(0.5)	–	–	–	(140.4)
Payments due to vendors (earnout agreements)	–	(234.1)	–	–	–	(234.1)
Liabilities in respect of put options	–	(168.3)	–	–	–	(168.3)
	45.5	(399.8)	8,741.5	190.8	(11,798.3)	(3,220.3)

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

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

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

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m
2011				
Derivatives in designated hedge relationships				
Derivative assets	–	185.4	–	185.4
Derivative liabilities	–	(139.9)	–	(139.9)
Held for trading				
Derivative assets	–	3.1	–	3.1
Derivative liabilities	–	(0.5)	–	(0.5)
Payments due to vendors (earnout agreements) (note 19)	–	–	(234.1)	(234.1)
Liabilities in respect of put options	–	–	(168.3)	(168.3)
Available for sale				
Other investments	–	–	190.8	190.8
	–	48.1	(211.6)	(163.5)

Reconciliation of level 3 fair value measurements[1]:

	Liabilities in respect of put options £m	Other investments £m	Carrying value £m
1 January 2011	(171.0)	173.7	2.7
Losses recognised in the income statement	(30.9)	(30.8)	(61.7)
Gain recognised in other comprehensive income	–	11.3	11.3
Exchange adjustments	5.7	–	5.7
Additions	(29.6)	36.6	7.0
Settlements	57.5	–	57.5
31 December 2011	(168.3)	190.8	22.5
Losses recognised in the income statement	(5.1)	(15.1)	(20.2)
Losses recognised in other comprehensive income	–	(3.5)	(3.5)
Exchange adjustments	11.6	(6.1)	5.5
Additions	(4.6)	24.8	20.2
Disposals	–	(14.4)	(14.4)
Settlements	22.1	–	22.1
31 December 2012	**(144.3)**	**176.5**	**32.2**

Note

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

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

26. Authorised and issued share capital

	Equity ordinary shares	Nominal value £m
Authorised		
1 January 2011	1,750,000,000	175.0
31 December 2011	1,750,000,000	175.0
31 December 2012	1,750,000,000	175.0
Issued and fully paid		
1 January 2011	1,264,391,221	126.4
Exercise of share options	5,548,684	0.6
Share cancellations	(6,955,523)	(0.7)
Scrip dividend	3,051,689	0.3
Other	337,750	–
31 December 2011	1,266,373,821	126.6
Exercise of share options	10,002,292	1.0
Share cancellations	(6,703,400)	(0.7)
Scrip dividend	2,001,145	0.2
Treasury share cancellations	(6,266,751)	(0.6)
31 December 2012	**1,265,407,107**	**126.5**

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 121 to 143.

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 2012 was 22,570,364 (2011: 20,599,871), and £200.4 million (2011: £139.2 million) respectively. There were no ordinary shares held in treasury at 31 December 2012. The number and market value of ordinary shares held in treasury at 31 December 2011 was 6,351,371 and £42.9 million respectively.

Share options

WPP Executive Share Option Scheme
As at 31 December 2012, unexercised options over ordinary shares of 1,186,129 and unexercised options over ADRs of 325,435 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
21,197	3.763	2006-2013
21,830	5.520	2008-2014
534,240	5.535	2007-2014
1,185	5.535	2008-2014
463,407	5.595	2006-2013
2,546	5.595	2007-2013
2,902	5.725	2007-2014
11,423	5.775	2009-2015
15,814	5.818	2008-2015
14,304	5.895	2008-2015
10,670	5.903	2011-2018
6,420	6.718	2009-2016
54,526	6.718	2009-2016
12,447	7.378	2014-2021
9,522	7.723	2010-2017
3,696	8.333	2015-2022

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
822	30.410	2011-2018
125,981	47.410	2006-2013
1,478	50.670	2008-2015
160,779	50.800	2007-2014
3,275	51.220	2007-2014
2,244	55.740	2008-2015
12,723	57.020	2008-2015
12,402	58.460	2009-2016
844	59.170	2011-2018
938	63.900	2009-2020
3,949	75.940	2010-2017

WPP Worldwide Share Ownership Program
As at 31 December 2012, unexercised options over ordinary shares of 10,963,206 and unexercised options over ADRs of 1,571,326 have been granted under the WPP Worldwide Share Ownership Program as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
20,600	3.903	2006-2013
1,000	3.903	2007-2013
12,625	4.819	2011-2018
56,375	5.435	2007-2014
14,000	5.483	2012-2016
621,889	5.483	2012-2019
6,000	5.483	2012-2020
209,680	5.483	2013-2019
51,125	5.608	2012-2019
875	5.775	2008-2015
8,700	5.913	2011-2018
22,750	5.917	2011-2018
315,025	6.028	2011-2018
106,450	6.195	2008-2015
2,459,902	6.268	2014-2021
89,375	6.268	2014-2018
340,177	6.268	2015-2021
2,500	6.668	2009-2017
18,750	6.740	2009-2016
196,525	6.938	2009-2016
7,900	7.005	2010-2017
14,750	7.113	2013-2017
1,854,778	7.113	2013-2020
240,113	7.113	2014-2020
36,625	7.478	2011-2017
63,853	7.543	2014-2020
680,850	7.718	2010-2017
3,510,014	8.458	2015-2022

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
4,470	30.800	2006-2013
150,572	44.560	2012-2019
345,463	49.230	2014-2021
17,135	49.880	2007-2014
260,601	56.560	2013-2020
120,260	59.500	2011-2018
53,750	59.520	2008-2015
74,760	60.690	2009-2016
426,660	67.490	2014-2021
117,655	75.760	2010-2017

24/7 Real Media, Inc. 2002 Stock Incentive Plan
As at 31 December 2012, unexercised options over ADRs of 30,640 have been granted under the 24/7 Real Media, Inc. 2002 Stock Incentive Plan as follows:

Number of ADRs under option	Exercise price per ADR ($)	Exercise dates
8	1.3400	2007-2013
184	15.8800	2007-2014
427	17.1500	2007-2014
187	20.0700	2007-2015
79	23.1800	2007-2015
263	24.2000	2007-2014
50	25.1500	2007-2014
7,001	27.5000	2007-2015
170	34.6200	2007-2015
89	38.8700	2007-2015
16,476	40.6500	2007-2015
110	41.4700	2007-2015
110	45.2900	2007-2016
118	46.0500	2007-2016
115	49.6000	2007-2016
89	50.4900	2007-2016
472	51.3800	2008-2017
78	52.5900	2008-2017
157	53.4800	2008-2017
314	54.1100	2007-2016
944	54.2400	2007-2016
314	55.2600	2007-2016
74	55.6400	2007-2016
157	56.2700	2007-2016
574	56.7200	2007-2016
235	58.9400	2007-2017
393	60.0200	2007-2016
78	61.2300	2008-2017
108	61.9200	2007-2016
314	62.0500	2007-2016
708	63.8900	2008-2017
112	64.2700	2007-2016
54	64.6500	2007-2016
78	65.5400	2007-2016

1999 Worldwide Employee Sharesave Plan
As at 31 December 2012, unexercised options over ordinary shares of 775,351 have been granted under the Taylor Nelson Sofres plc 1999 Worldwide Employee Sharesave Plan as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
762,925	1.7300	2013-2015
6,092	2.6500	2012-2014
6,334	3.0000	2011-2013

The aggregate status of the WPP Share Option Plans during 2012 was as follows:

Movements on options granted (represented in ordinary shares)

	1 January 2012	Granted	Exercised	Lapsed	Outstanding 31 December 2012	Exercisable 31 December 2012
WPP	10,276,370	3,696	(7,223,514)	(243,248)	2,813,304	2,797,161
WWOP	18,101,132	5,763,600	(2,499,698)	(2,545,198)	18,819,836	4,873,574
Grey	27,295	–	(27,295)	–	–	–
24/7	218,915	–	(44,525)	(21,190)	153,200	105,970
TNS	1,002,691	–	(207,260)	(20,080)	775,351	12,426
	29,626,403	5,767,296	(10,002,292)	(2,829,716)	22,561,691	7,789,131

Weighted-average exercise price for options over

	1 January 2012	Granted	Exercised	Lapsed	Outstanding 31 December 2012	Exercisable 31 December 2012
Ordinary shares (£)						
WPP	5.510	8.333	5.443	6.924	5.647	5.620
WWOP	6.463	8.458	6.010	6.621	7.163	6.465
TNS	1.755	–	1.786	1.726	1.748	2.828
ADRs ($)						
WPP	46.836	–	38.140	48.595	50.373	50.373
WWOP	54.569	67.490	51.418	53.995	58.581	58.498
Grey	29.983	–	29.983	–	–	–
24/7	38.585	–	33.185	41.622	39.735	39.327

Options over ordinary shares
Outstanding

	Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
	1.730 – 8.458	6.699	88

Options over ADRs
Outstanding

	Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
	1.340 – 75.940	56.895	78

As at 31 December 2012 there was £8.5 million (2011: £7.9 million) of total unrecognised compensation cost related to share options. That cost is expected to be recognised over a weighted average period of 20 months (2011: 17 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:

	2012	2011	2010
Fair value of UK options (shares)	135.3p	120.6p	144.5p
Fair value of US options (ADRs)	$10.90	$9.20	$10.97
Weighted average assumptions:			
UK Risk-free interest rate	0.56%	0.84%	1.76%
US Risk-free interest rate	0.51%	0.67%	1.05%
Expected life (months)	48	48	48
Expected volatility	27%	30%	30%
Dividend yield	2.8%	2.5%	2.5%

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

The weighted average share price of the Group for the year ended 31 December 2012 was £8.17 (2011: £7.11, 2010: £6.78) and the weighted average ADR price for the same period was $64.90 (2011: $57.09, 2010: $52.51).

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

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

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

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

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

27. Other reserves
Other reserves comprise the following:

	Capital redemption reserve £m	Equity reserve £m	Revaluation reserve £m	Translation reserve £m	Total other reserves £m
1 January 2011	–	(81.7)	14.0	1,250.5	1,182.8
Exchange adjustments on foreign currency net investments	–	–	–	(250.0)	(250.0)
Gain on revaluation of available for sale investments	–	–	11.3	–	11.3
Recognition and remeasurement of financial instruments	–	(5.9)	–	–	(5.9)
Share cancellations	0.7	–	–	–	0.7
31 December 2011	0.7	(87.6)	25.3	1,000.5	938.9
Exchange adjustments on foreign currency net investments	–	–	–	(298.4)	(298.4)
Gain on revaluation of available for sale investments	–	–	(3.5)	–	(3.5)
Recognition and remeasurement of financial instruments	–	2.7	–	–	2.7
Share cancellations	0.7	–	–	–	0.7
Treasury share cancellations	0.6	–	–	–	0.6
Share purchases – close period commitments	–	(18.3)	–	–	(18.3)
31 December 2012	**2.0**	**(103.2)**	**21.8**	**702.1**	**622.7**

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

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

	Book value at acquisition £m	Fair value adjustments £m	Fair value to Group £m
Intangible assets	1.3	185.2	186.5
Property, plant and equipment	8.5	–	8.5
Cash (net of overdrafts)	48.1	–	48.1
Trade receivables due within one year	66.9	(1.9)	65.0
Other current assets	36.8	–	36.8
Total assets	**161.6**	**183.3**	**344.9**
Current liabilities	(91.3)	–	(91.3)
Trade and other payables due after one year	(3.3)	(20.2)	(23.5)
Deferred tax liabilities	(1.9)	(59.4)	(61.3)
Provisions	(0.9)	(11.2)	(12.1)
Bank loans	(20.0)	–	(20.0)
Total liabilities	**(117.4)**	**(90.8)**	**(208.2)**
Net assets	**44.2**	**92.5**	**136.7**
Non-controlling interests			(10.2)
Fair value of equity stake in associate undertakings before acquisition of controlling interest			(10.3)
Goodwill			385.3
Consideration			501.5
Consideration satisfied by:			
Cash			454.4
Payments due to vendors			47.1

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 £34.3 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 2012 and the date the financial statements have been authorised for issue.

29. Principal subsidiary undertakings
The principal subsidiary undertakings of the Group are:

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

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

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

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

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

Reconciliation of profit before interest and taxation to headline PBIT:

	2012 £m	2011 £m	2010 £m
Profit before interest and taxation	1,310.5	1,258.3	1,028.2
Amortisation and impairment of acquired intangible assets	171.9	172.0	170.5
Goodwill impairment	32.0	–	10.0
Gains on disposal of investments	(26.8)	(0.4)	(4.1)
Gains on remeasurement of equity on acquisition of controlling interest	(5.3)	(31.6)	(13.7)
Investment write-downs	19.6	32.8	37.5
Cost of changes to corporate structure	4.1	–	–
Gain on sale of freehold property in New York	(71.4)	–	–
Restructuring costs	93.4	–	–
Share of exceptional losses/(gains) of associates	3.0	(2.1)	0.3
Headline PBIT	1,531.0	1,429.0	1,228.7
Finance income	85.9	97.3	81.7
Finance costs	(299.8)	(297.2)	(276.8)
	(213.9)	(199.9)	(195.1)
Interest cover on headline PBIT	7.2 times	7.1 times	6.3 times

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

	2012 £m	2011 £m	2010 £m
Profit before taxation	1,091.9	1,008.4	851.3
Amortisation and impairment of acquired intangible assets	171.9	172.0	170.5
Goodwill impairment	32.0	–	10.0
Gains on disposal of investments	(26.8)	(0.4)	(4.1)
Gains on remeasurement of equity on acquisition of controlling interest	(5.3)	(31.6)	(13.7)
Investment write-downs	19.6	32.8	37.5
Cost of changes to corporate structure	4.1	–	–
Gain on sale of freehold property in New York	(71.4)	–	–
Restructuring costs	93.4	–	–
Share of exceptional losses/(gains) of associates	3.0	(2.1)	0.3
Revaluation of financial instruments	4.7	50.0	(18.2)
Headline PBT	1,317.1	1,229.1	1,033.6
Headline tax charge	(278.9)	(270.4)	(227.8)
Non-controlling interests	(72.0)	(76.4)	(75.0)
Headline earnings	966.2	882.3	730.8
Ordinary dividends paid	322.2	239.5	200.4
Dividend cover on headline earnings	3.0 times	3.7 times	3.6 times

Calculation of headline EBITDA:

	2012 £m	2011 £m	2010 £m
Headline PBIT (as above)	1,531.0	1,429.0	1,228.7
Depreciation of property, plant and equipment	191.0	185.8	184.9
Amortisation of other intangible assets	33.7	25.7	25.4
Headline EBITDA	1,755.7	1,640.5	1,439.0

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

	Margin %	2012 £m	Margin %	2011 £m	Margin %	2010 £m
Revenue		10,373.1		10,021.8		9,331.0
Headline PBIT	14.8%	1,531.0	14.3%	1,429.0	13.2%	1,228.7
Share of results of associates (excluding exceptional losses)		(72.4)		(64.0)		(55.5)
Headline operating profit	14.1%	1,458.6	13.6%	1,365.0	12.6%	1,173.2

Headline diluted earnings per ordinary share:

	2012 £m	2011 £m	2010 £m
Headline earnings	**966.2**	882.3	730.8
Earnings adjustment:			
Dilutive effect of convertible bonds	**26.1**	26.1	28.3
Weighted average number of ordinary shares	**1,352,599,279**	1,342,216,388	1,339,004,622
Headline diluted earnings per ordinary share	**73.4p**	67.7p	56.7p

Reconciliation of free cash flow:

	2012 £m	2011 £m	2010 £m
Cash generated by operations	**1,291.1**	1,033.5	1,680.1
Plus:			
Interest received	**56.6**	63.2	50.7
Investment income	**1.2**	0.6	4.2
Dividends from associates	**44.7**	57.2	53.3
Share option proceeds	**56.0**	28.8	42.7
Proceeds on disposal of property, plant and equipment	**123.5**	13.2	7.6
Movement in working capital and provisions	**388.2**	620.9	(225.5)
Less:			
Interest and similar charges paid	**(228.3)**	(241.4)	(219.7)
Purchases of property, plant and equipment	**(290.3)**	(216.1)	(190.5)
Purchases of other intangible assets (including capitalised computer software)	**(39.8)**	(37.1)	(27.0)
Corporation and overseas tax paid	**(257.0)**	(247.9)	(207.4)
Dividends paid to non-controlling interests in subsidiary undertakings	**(51.9)**	(62.2)	(66.7)
Free cash flow	**1,094.0**	1,012.7	901.8

Company profit and loss account

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Turnover		**–**	–
Operating costs		**(5.6)**	(5.5)
Operating loss		**(5.6)**	(5.5)
Amounts written off investments		**(296.5)**	(554.9)
Interest payable and similar charges	33	**(40.5)**	(31.9)
Loss on ordinary activities before taxation		**(342.6)**	(592.3)
Taxation on loss on ordinary activities	34	**–**	–
Loss on ordinary activities after taxation		**(342.6)**	(592.3)

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

All results are derived from continuing activities.

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

Company balance sheet

As at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investments	35	**4,578.9**	4,494.9
		4,578.9	4,494.9
Current assets			
Debtors	36	**0.3**	–
Cash at bank and in hand		**1.2**	0.5
		1.5	0.5
Creditors: amounts falling due within one year	37	**(614.7)**	(263.0)
Net current liabilities		**(613.2)**	(262.5)
Total assets less current liabilities		**3,965.7**	4,232.4
Creditors: amounts falling due after more than one year	38	**(447.3)**	(445.3)
Net assets		**3,518.4**	3,787.1
Capital and reserves			
Called-up share capital	39	**126.5**	126.6
Share premium account	39	**175.9**	105.7
Shares to be issued	39	**1.8**	2.4
Capital redemption reserve	39	**2.0**	0.7
Own shares	39	**–**	(37.5)
Profit and loss account	39	**3,212.2**	3,589.2
Equity share owners' funds		**3,518.4**	3,787.1

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

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2013.

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Notes to the Company financial statements

32. Accounting policies

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

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies (Jersey) Law 1991. The financial statements are prepared on a going concern basis, further details of which are in the Directors' report on page 167.

b) Translation of foreign currency

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

c) Investments

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

d) Taxation

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

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

e) UITF 44: Group and treasury share transactions

Where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, UITF 44 requires the subsidiary to record an expense for such compensation in accordance with FRS 20 (Share-based payments), with a corresponding increase recognised in equity as a contribution from the parent. Consequently, in the financial statements of the parent (WPP plc), the Company has recognised an addition to fixed asset investments of the aggregate amount of these contributions of £92.8 million in 2012 (2011: £78.8 million), with a credit to equity for the same amount.

33. Interest payable and similar charges

	2012 £m	2011 £m
Interest payable on corporate bonds	27.9	27.9
Bank and other interest payable	12.6	3.5
Interest payable to subsidiary undertakings	–	0.5
	40.5	31.9

34. Taxation on loss on ordinary activities

The tax assessed for the year differs from that resulting from applying the current rate of corporation tax in Ireland of 25% (2011: 25%). The differences are explained below:

	2012 £m	2011 £m
Loss on ordinary activities before tax	(342.6)	(592.3)
Tax at the current rate of 25% (2011: 25%) thereon	85.6	148.1
Factors affecting tax charge for the year:		
Amounts written off investments	(74.1)	(138.7)
Unrecognised losses carried forward	(11.5)	(9.4)
Current tax charge for the year	–	–

35. Fixed asset investments

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

	Subsidiary undertakings £m	Other investments £m
Cost:		
1 January 2012	4,494.9	554.9
Additions	92.8	287.7
31 December 2012	4,587.7	842.6
Provision for impairment:		
1 January 2012	–	554.9
Charge for the year	8.8	287.7
31 December 2012	8.8	842.6
Net book value:		
31 December 2012	4,578.9	–
31 December 2011	4,494.9	–

Fixed asset investments primarily represent 100% of the issued share capital of WPP Air 1 Limited, a company incorporated in Ireland. Fixed asset investments were purchased in a share-for-share exchange. During the year the Company also made an investment in a fellow Group undertaking as part of a Group reorganisation. This investment was subsequently impaired as the recoverable amount attributable to this undertaking was less than its carrying value. Details of indirect subsidiaries are given in note 29.

36. Debtors

The following are included in debtors:

	2012 £m	2011 £m
Other debtors	0.3	–

37. Creditors: amounts falling due within one year

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

	2012 £m	2011 £m
Bank overdraft	**495.9**	144.9
Interest payable on corporate bonds	**3.0**	3.0
Amounts due to subsidiary undertakings	**113.2**	113.1
Other creditors and accruals	**2.6**	2.0
	614.7	263.0

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

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

	2012 £m	2011 £m
Corporate bonds	**447.3**	445.3

In May 2009 the Company issued £450 million of 5.75% convertible bonds due May 2014.

39. Equity share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Shares to be issued £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m
1 January 2012	126.6	105.7	2.4	0.7	(37.5)	3,589.2
Ordinary shares issued	1.0	55.0	(0.6)	–	–	0.5
Dividends paid	–	–	–	–	–	(18.9)
Scrip dividend	0.2	15.4	–	–	–	(15.6)
Share issue/ cancellation costs	–	(0.2)	–	–	–	–
Loss for the year	–	–	–	–	–	(342.6)
Equity granted to employees of subsidiaries	–	–	–	–	–	92.8
Share cancellations	(0.7)	–	–	0.7	–	(55.1)
Treasury share additions	–	–	–	–	(0.6)	–
Treasury share utilisation	–	–	–	–	0.9	(0.9)
Treasury share cancellations	(0.6)	–	–	0.6	37.2	(37.2)
31 December 2012	**126.5**	**175.9**	**1.8**	**2.0**	**–**	**3,212.2**

Reconciliation of movements in equity share owners' funds for the year ended 31 December 2012:

	2012 £m	2011 £m
Loss for the year	**(342.6)**	(592.3)
Equity granted to employees of subsidiaries	**92.8**	78.8
Ordinary shares issued	**55.9**	30.9
Dividends paid	**(18.9)**	(18.0)
Share cancellations	**(55.1)**	(45.9)
Share issue/cancellation costs	**(0.2)**	–
Treasury share additions	**(0.6)**	(29.8)
Net reduction to equity share owners' funds	**(268.7)**	(576.3)
Opening equity share owners' funds	**3,787.1**	4,363.4
Closing equity share owners' funds	**3,518.4**	3,787.1

At 31 December 2012 the Company's distributable reserves amounted to £2,908.1 million (2011: £3,377.9 million). Further details of the Company's share capital are shown in note 26.

40. Guarantees and other financial commitments

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

Independent auditors' report

Independent auditors' report to the members of WPP plc

We have audited the Group and parent company financial statements (the 'financial statements') of WPP plc for the year ended 31 December 2012 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 and balance sheet and the related notes 1 to 40. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit and parent company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991.

Separate opinion in relation to IFRS as issued by IASB

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

Other matters

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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

We have reviewed the directors' statement contained within the Directors' Report in relation to going concern as if the Company had been incorporated in the UK and have nothing to report to you in that respect.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- 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 financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the UK Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Graham Richardson (Individual responsible for the Audit) for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditors
London, United Kingdom
22 April 2013

WPP 2012 plc balance sheet

As at 31 December 2012

	Notes	2012 £m
Current assets		
Debtors		–
Net assets		–
Capital and reserves		
Called-up share capital	42	–
Equity share owners' funds		–

Note
The Company did not trade during the period and has made neither profit nor loss, nor any other recognised gains or losses. 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 22 April 2013.

Sir Martin Sorrell
Group chief executive

Paul Richardson
Group finance director

Notes to the WPP 2012 plc financial statements

41. Accounting policies

The principal accounting policies of WPP 2012 plc (the Company) are summarised below. These accounting policies have all been applied consistently throughout the period.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies (Jersey) Law 1991. The financial statements are prepared on a going concern basis, further details of which are in the Directors' report on page 167.

42. Equity share owners' fund

	Equity ordinary shares	Nominal value £m
Authorised	1,750,000,000	175.0
Issued and fully paid		
31 December 2012	**2**	**–**

WPP 2012 plc was incorporated on 25 October 2012 with an authorised share capital of £175,000,000 and two issued ordinary shares of 10 pence each.

On 30 August 2012, the Group announced its intention to return its headquarters to the United Kingdom. In order to effect its return to the United Kingdom, the Group put in place a new United Kingdom tax resident parent company (WPP 2012 plc) by means of a scheme of arrangement pursuant to Article 125 of the Companies (Jersey) Law 1991.

The new scheme became effective on 2 January 2013, with WPP 2012 plc becoming the new parent company of the WPP Group and being renamed WPP plc. At the same time, the existing parent company of the WPP Group, WPP plc, was renamed WPP 2012 Limited and, shortly after the Scheme became effective, changed its status to a private company.

Independent auditors' report to the members of WPP 2012 plc[1]

We have audited the financial statements (the 'financial statements') of WPP 2012 plc[1] for the year ended 31 December 2012 which comprise the Balance Sheet and related notes 41 to 42. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

[1] Effective 2 January 2013, WPP 2012 plc became known as WPP plc.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matters

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

We have reviewed the directors' statement, contained within the Directors' Report, in relation to going concern as if the Company had been incorporated in the UK and have nothing to report to you in that respect.

Graham Richardson
(individual responsible for the Audit)
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditors
London, United Kingdom
22 April 2013

Five-year summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Income statement					
Billings[1]	**44,405.3**	44,791.8	42,683.6	37,919.4	36,929.0
Revenue	**10,373.1**	10,021.8	9,331.0	8,684.3	7,476.9
Operating profit	**1,241.1**	1,192.2	973.0	761.7	876.0
Headline EBITDA[2]	**1,755.7**	1,640.5	1,439.0	1,243.0	1,291.2
Headline PBIT[3]	**1,531.0**	1,429.0	1,228.7	1,017.2	1,118.2
Profit before taxation	**1,091.9**	1,008.4	851.3	662.6	746.8
Headline PBT[4]	**1,317.1**	1,229.1	1,033.6	812.2	968.4
Profit for the year	**894.7**	916.5	661.0	506.9	513.9
Balance sheet					
Non-current assets	**13,452.9**	13,406.2	13,087.6	12,756.2	13,355.7
Net current liabilities	**(671.9)**	(508.6)	(817.3)	(971.0)	(1,028.7)
Non-current trade and other payables	**(887.3)**	(932.6)	(870.4)	(908.8)	(1,042.9)
Provisions for liabilities and charges (including provisions for post-employment benefits)	**(472.2)**	(436.3)	(403.1)	(404.7)	(407.9)
Net assets	**7,060.6**	6,894.3	6,647.9	6,075.7	5,959.8
Net debt	**(2,821.2)**	(2,464.8)	(1,888.4)	(2,640.4)	(3,067.6)
Average net debt	**(3,202.5)**	(2,811.0)	(3,056.0)	(3,448.0)	(2,206.0)

	2012	2011	2010	2009	2008
Our people					
Revenue per employee (£000)	**90.6**	91.1	92.0	82.5	76.7
Gross profit per employee (£000)	**83.1**	84.0	84.4	75.8	71.9
Staff cost per employee (£000)	**53.3**	53.4	53.6	48.6	44.7
Average headcount	**114,490**	109,971	101,387	105,318	97,438
Share information					
Headline[5] – basic earnings per share	**77.7p**	71.0p	59.3p	45.1p	56.7p
– diluted earnings per share	**73.4p**	67.7p	56.7p	44.4p	55.5p
Reported – basic earnings per share	**66.2p**	67.6p	47.5p	35.9p	38.4p
– diluted earnings per share	**62.8p**	64.5p	45.9p	35.3p	37.6p
Dividends per share[6]	**28.51p**	24.60p	17.79p	15.47p	15.47p
Share price – high	**894.5p**	846.5p	795.0p	614.5p	648.0p
– low	**669.0p**	578.0p	572.5p	353.0p	310.3p
Market capitalisation at year-end (£m)	**11,236.8**	8,554.4	9,982.4	7,658.3	5,052.8

Notes

1 Billings is defined on page 226.
2 The calculation of headline EBITDA for 2012, 2011 and 2010 is set out in note 31 of the financial statements.
3 The calculation of headline PBIT for 2012, 2011 and 2010 is set out in note 31 of the financial statements.
4 The calculation of headline PBT for 2012, 2011 and 2010 is set out in note 31 of the financial statements.
5 Headline earnings per share for 2012, 2011 and 2010 is set out in note 9 of the financial statements.
6 Dividends per share represents the dividends declared in respect of each year.

The information on this page is unaudited.

Financial glossary

Term used in Annual Report	US equivalent or brief description
Allotted	Issued
ADRs/ADSs	American Depositary Receipts/American Depositary Shares. The Group uses the terms ADR and ADS interchangeably. One ADR/ADS represents five ordinary shares
Average net debt and net debt	Average net debt is calculated as the average daily net borrowings of the Group. Net debt at a period end is calculated as the sum of the net borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet
Billings	Billings comprise the gross amounts billed to clients in respect of commission-based/fee-based income together with the total of other fees earned
Called-up share capital	Ordinary shares, issued and fully paid
Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council dated June 2008
Constant currency	The Group uses US dollar-based, constant currency models to measure performance. These are calculated by applying budgeted 2012 exchange rates to local currency reported results for the current and prior year. This gives a US dollar-denominated income statement which exclude any variances attributable to foreign exchange rate movements
ESOP	Employee share ownership plan
Estimated net new billings	Net new billings represent the estimated annualised impact on billings of new business gained from both existing and new clients, net of existing client business lost. The estimated impact is based upon initial assessments of the clients' marketing budgets, which may not necessarily result in actual billings of the same amount
EURIBOR	The euro area inter-bank offered rate for euro deposits
Finance lease	Capital lease
Free cash flow	Free cash flow is calculated as headline operating profit before non-cash charges for share-based incentive plans, depreciation of property, plant and equipment and amortisation of other intangible assets, including dividends received from associates, interest received, investment income received, proceeds from the issue of shares, and proceeds from the disposal of property, plant and equipment, less corporation and overseas tax paid, interest and similar charges paid, dividends paid to non-controlling interests in subsidiary undertakings, purchases of property, plant and equipment and purchases of other intangible assets
Freehold	Ownership with absolute rights in perpetuity
Gross margin/gross profit	The Group uses the terms gross margin and gross profit interchangeably. Headline gross margin margin is calculated as headline PBIT as a percentage of gross profit
Headline earnings	Headline PBT less taxation (excluding exceptional release of prior year tax provisions, net deferred tax credit in relation to the amortisation of acquired intangible assets and other goodwill items, deferred tax on gain on sale of freehold property in New York and tax credit relating to restructuring costs) and non-controlling interests
Headline EBITDA	Profit before finance income/costs and revaluation of financial instruments, taxation, investment gains/losses and write-downs, goodwill impairment and other goodwill write-downs, amortisation and impairment of intangible assets, share of exceptional losses/gains of associates, depreciation of property, plant and equipment and gains/losses on remeasurement of equity interest on acquisition of controlling interest; and, in 2012, the gain on sale of freehold property in New York, Group restructuring costs and costs incurred in changing the corporate structure of the Group

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