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

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

Where required, equivalent disclosures are given in the consolidated financial statements. The financial statements are prepared on a going concern basis, further details of which are in the Directors' report on page 50.

b) Translation of foreign currency

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

c) Investments

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

d) Taxation

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

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

e) Group and treasury share transactions

Where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, IFRS 2 (share-based payment) requires the subsidiary to record an expense for such compensation with a corresponding increase recognised in equity as a contribution from the parent. Consequently, in the financial statements of the parent (WPP plc), the Company has recognised an addition to fixed asset investments of the aggregate amount of these contributions of £106.5 million in 2016 (2015: £99.0 million), with a credit to equity for the same amount.

f) Foreign currency and interest rate hedging

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

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow or net investment hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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

33. Interest receivable and similar income

	2016 £m	2015 £m
Interest receivable from subsidiary undertakings	–	0.6
Interest receivable on financial instruments	–	0.6
	–	1.2

34. Interest payable and similar charges

	2016 £m	2015 £m
Interest payable on corporate bonds	**33.7**	65.1
Bank and other interest payable	**5.4**	8.9
Interest payable to subsidiary undertakings	**63.4**	72.1
	102.5	146.1

35. Taxation on loss on ordinary activities

The tax assessed for the year differs from that resulting from applying the rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £m	2015 £m
Loss on ordinary activities before tax	**(97.3)**	(138.3)
Tax at the rate of 20% thereon	**19.5**	28.0
Factors affecting tax charge for the year:		
Revaluation of financial instruments	**(1.7)**	(0.8)
Unrecognised losses carried forward	**(17.8)**	(27.2)
Tax charge for the year	**–**	–

36. Fixed asset investments

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

	Subsidiary undertakings £m
1 January 2016	12,863.8
Additions	106.5
31 December 2016	**12,970.3**

Fixed asset investments primarily represent 100% of the issued share capital of WPP Jubilee Limited, a company incorporated in Great Britain. Fixed asset investments were purchased in a share-for-share exchange. At 31 December 2016 cost and net book value were the same. Details of indirect subsidiaries are given in note 29.

37. Debtors: amounts falling due within one year

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

	2016 £m	2015 £m
Amounts owed by subsidiary undertakings	**1,628.7**	1,685.4
Fair value of derivatives	**10.3**	–
Other debtors	**1.2**	0.7
	1,640.2	1,686.1

38. Debtors: amounts falling due after one year

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

	2016 £m	2015 £m
Fair value of derivatives	**–**	19.1

39. Creditors: amounts falling due within one year

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

	2016 £m	2015 £m
Bank overdrafts	**1,238.7**	1,010.3
Corporate bonds	**403.1**	367.2
Amounts due to subsidiary undertakings	**2,659.2**	2,436.5
Interest payable on corporate bonds	**18.0**	33.4
Other creditors and accruals	**3.0**	8.3
	4,322.0	3,855.7

Corporate bonds include £400 million of 6% bonds due April 2017. Further details are given in note 10.

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

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

	2016 £m	2015 £m
Corporate bonds	**–**	411.8
Amounts due to subsidiary undertakings	**1,363.4**	600.5
	1,363.4	1,012.3

Total borrowings are repayable as follows:

	2016 £m	2015 £m
Within one year	**4,322.0**	3,855.7
Between one and five years	**656.1**	411.8
Over five years	**707.3**	600.5
	5,685.4	4,868.0

41. Equity share owners' funds

Other reserves at 31 December 2016 comprises a translation reserve of £10.0 million (2015: £10.0 million).

At 31 December 2016 the Company's distributable reserves amounted to £8,595.7 million (2015: £9,310.3 million). Further details of the Company's share capital are shown in note 26.