Merkle UK One Limited

Annual report and financial statements
Registered number 04238272
31 December 2018

Contents

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

Fair review of the business
The results of Merkle UK One Limited ("the Company") for the year are set out in the Profit and Loss Account on page 10. In the year under review, the Company enjoyed strong top line turnover growth of 38.6% by delivering turnover of £26,595,000 (2017: £19,185,000). Profit before tax is lower than the prior year £644,000 (2017: £2,203,000) as the company continues to invest for future growth. Spend on sales, client management, finance, IT and marketing impacted profitability during 2018. Employee numbers at the end of the year of 182 (2017: 168).

The Balance Sheet on page 11 of the Financial Statements shows the Company's financial position. At 31 December 2018 the Company was in a positive equity position of £6,568,000 (2017: positive equity position of £6,079,000).

The Company provides a range of services in the area of marketing solutions, services and consultancy. The immediate parent company is Merkle Marketing Limited and the ultimate parent company is Dentsu Inc.

Key performance indicators
- Turnover increased by 38.6% in 2018 (2017: 19% increase).
- Profit before tax decreased by 70.7% in 2018 (2017: 11% increase).

Principal risks and uncertainties
The Company faces a range of market, strategic, financial, legal, operational and human resource risks. During 2018, there was a focus on retaining and growing existing clients and cross selling services into group companies. The Company continually reviews the key risks and strives to improve the internal control framework to help mitigate them, where possible. Listed below are what the Company believes to be the principal risk factors and uncertainties faced during the period and the strategies for managing them.

1. Maintaining strong client relationships
Risk description
- Loss of key clients and/or failure to win new ones.

Potential risk impact
- Loss of profit.
- Subsequent loss of key managers.

Risk management strategy
- To remain a highly-competitive organisation to help win new clients and continue to provide a high-quality service to existing clients.

Risk mitigation actions
- Dedicated client relationship teams are in place.

2. Managing counterparty risk
Risk description
- Loss of income from clients who have cash flow or insolvency problems.

Potential risk impact
- Loss of profit, due to bad debt.

Risk management strategy
- To maintain and develop robust financial and operating systems to ensure any potential loss of income from third parties is minimised.

Risk mitigation actions
- Due diligence, including assessments of credit risk, is undertaken for all new clients and written contracts must be in place before commencing any significant work.

Strategic report *(continued)*

3. Weak economic conditions
Risk description
- Weak economies can cause clients to reduce marketing spend.

Potential risk impact
- Loss of profit.

Risk management strategy
- To maintain a diversified business, with a strategy to increase exposure to areas less likely to be impacted by macroeconomic challenges, particularly digital.

Risk mitigation actions
- Diversify the business into faster-growing product areas.
- Review regular, detailed reporting by key business areas, ensuring senior management is kept abreast of divisional performance.
- Perform regular re-forecasts of financial performance, to reflect current economic environment/trends.

4. Maintaining a sound financial position
Risk description
- Insufficient liquidity and funding requirements to support the Company's liabilities and manage the growth of the business.

Potential risk impact
- Lack of funds for current operations and future growth.

Risk management strategy
- Maintain sufficient funding, with secure access to banking facilities, to meet liabilities and to fund the growth of the business. From a cost perspective, ensuring a cost management culture is integrated throughout the organisation.

Risk mitigation actions
- The Company has cash pooling arrangements in place with relationship banks through Dentsu Aegis Network Ltd.
- Daily cash reporting for all operations is maintained.
- Minimum headroom limits are monitored regularly.

5. Managing the security of data
Risk description
- Unauthorised access to, or inappropriate use of, client, employee or other confidential data, with a specific emphasis on the General Data Protection Regulation that came into force in early 2018.

Potential risk impact
- Loss of profit and/or reputational damage.
- Material fines from regulatory bodies resulting from non-compliance.

Risk management strategy
- Ensure robust IT and financial reporting systems are in place in line with best practice data security and compliance regulations, and based on strict internal policies and procedures.

Risk mitigation actions
- External access to information is protected by the IT security framework which is assessed regularly through vulnerability testing and IT security audits.
- The Company insists on confidentiality clauses in employee and supplier contracts.

6. Ensuring legal and regulatory compliance
Risk description
- The Company may be unprepared for legislative and regulatory changes.

Potential risk impact
- Loss of profit.
- Damage to management reputation and credibility.

Risk management strategy
- Ensure compliance with a range of legal and contractual requirements around the world.

Strategic report *(continued)*

Risk mitigation actions

- The Company's Legal team, which includes specialist compliance capability, continually monitors changes in regulation with a view to changing company policies and communicating the changes before they come into force.
- Online compliance training packages are developed to supplement face-to-face training.
- The Company has a regulatory intranet, which is utilised as a tracking tool for new and updated regulation and an internal newsletter which updates employees on developments in the area of compliance.

Future developments

Building upon the solid platform of services contained with the Company, that have significant market appeal and an increasingly experienced management team, the Company will focus on two core objectives for 2019 fiscal year.

Client retention:

Once again client retention is a key objective, and this will be split into three key areas of focus:

- **The quality of solutions delivered:** The Company delivers complex solutions for many clients and with complexity comes a need for superior quality control. Delivering complex solutions that meet the client's requirements and expectations on time, to budget, requires structure, process and discipline.
- **Measurable value:** When clients buy services or solutions from the Company they are inevitably based on a business need and often supported by a business case with an ROI justification. By understanding and embracing these objectives, the Company is more able to deliver to the expectations of its clients and in most instances can use its experience to influence or enhance the end result. A key objective for the Company is to make this understanding the rule rather than the exception. Understanding and tracking the client's objectives and KPIs will allow the business to be proactive in identifying issues and opportunities.
- **Measuring client satisfaction:** Management will use Net Promotor Score ("NPS") as the mechanism to measure client satisfaction. The methodology is used globally and is recognised as an effective tool for this purpose. For the foreseeable future the business will use NPS scores throughout the business to allow team members aligned to specific clients to monitor their scores. This plays an important part in the staff review process.

Cross sell and new logo wins:

- This will be achieved by leveraging the new business, client service and solutions teams to use the portfolio of capabilities across the Merkle Group to deliver value add, people based marketing propositions to help clients retain and grow their client bases.

By order of the Board

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B Isenberg
Director

Date 18 July 2019

10 Triton Street, Regent's Place, London, NW1 3BF

Directors' report

The directors, who served during the year and are shown below, present their report and the Financial Statements of Merkle UK One Limited ("the Company") for the year ended 31 December 2018.

Principal activity
The Company provides a range of services in the area of marketing solutions, services and consulting. The company's main principal activity is that of management consultancy activities basically related to:

- CRM developments.
- CRM strategy and implementation.
- Campaign tools implementation.
- Campaign management.

Research and development
There have been no research and development activities in the current or prior year.

Financial instruments
The Company does not use derivative financial instruments.

Proposed dividend
There were no dividends paid or declared in 2018 (2017: nil).

Directors
The directors who held office during the year were as follows:

B Isenberg
M Komasinski
D Williams

Company secretary
A Moberly

Directors' indemnities
Appropriate directors and officers liability insurance cover is in place in respect of all the Company's Directors and officers.

Employment policies
It is the policy of the Company that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled, every practical effort is made to provide continued employment.

The directors are committed to maintain and develop communication and consultation procedures with employees, who in turn are encouraged to become aware of and involve themselves in the performance of their own division and the Company as a whole.

Consultation and involvement policies vary from division to division according to legal consideration and the size of the business.

Political and charitable contributions
The Company made charitable donations of £1,000 (2017: £1,000) during the year. There were no political donations nor any political expenditure incurred.

Directors' report *(continued)*

Going concern
The financial statements have been prepared on a going concern basis and in making this assessment, management is not aware of any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Disclosure of information to auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information
An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditor
KPMG LLP has indicated a willingness to continue in office and will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

By order of the Board

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B Isenberg
Director

Date 19 July 2019

10 Triton Street, Regent's Place, London, NW1 3BF

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Merkle UK One Limited

Opinion

We have audited the financial statements of Merkle UK One Limited ("the Company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of investments and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of Merkle UK One Limited
(continued)

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or 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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

Independent auditor's report to the members of Merkle UK One Limited

(continued)

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Sarah Styant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London,
E14 5GL

Date: 22 July 2019

Profit and Loss Account
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	2	26,595	19,185
Cost of sales		(19,064)	(12,270)
Gross profit		7,531	6,915
Operating expenses		(6,904)	(4,715)
Operating profit	3	627	2,200
Interest receivable and similar income	6	17	3
Profit before tax		644	2,203
Tax on profit on ordinary activities	7	(145)	(458)
Profit for the year		**499**	1,745
Other Comprehensive income		-	-
Total Comprehensive income		**499**	**1,745**

The notes on pages 13 – 26 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	8	195	-
Tangible fixed assets	9	989	1,176
		1,184	1,176
Current assets			
Debtors	10	10,569	8,317
Deferred tax assets	12	104	27
Cash at bank and in hand		1	1,088
		10,674	9,432
Creditors: Amounts falling due within one year	11	(5,291)	(4,529)
Net current assets		**5,383**	4,903
Total assets less current liabilities		**6,567**	6,079
Net assets		**6,567**	6,079
Capital and reserves			
Share capital	13	1,308	1,308
Profit and loss account		5,259	4,771
Shareholders' funds		**6,567**	6,079

These financial statements were approved by the board of directors and were signed on its behalf by:

B Isenberg
Director

Date 18 July 2019

10 Triton Street, Regent's Place, London, NW1 3BF

Company registered number: 04238272

The notes on pages 13 – 26 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	1,308	6,345	(3,319)	4,334
Profit for the year	-	-	1,745	1,745
Capital reduction	-	(6,345)	6,345	-
Balance at 31 December 2017	1,308	-	4,771	6,079

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018	1,308	-	4,771	6,079
Adjustment on initial application of IFRS 9	-	-	(11)	(11)
Adjusted balance at 1 January 2018	1,308	-	4,760	6,068
Profit for the year	-	-	499	499
Balance at 31 December 2018	**1,308**	**-**	**5,259**	**6,567**

The notes on pages 13 – 26 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Merkle UK One Limited ("the Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 04238272 and the registered address is 10 Triton Street, Regent's Place, London, NW1 3BF.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101")*.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Dentsu Inc., includes the Company in its consolidated financial statements. The consolidated financial statements of Dentsu Inc. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from The Secretary, Dentsu Inc., 1-8-1 Higashi-shimbashi, Minato-ku, Tokyo 105-7001. The smallest group in which the results of the Company are consolidated is the group headed by Dentsu Aegis Network Ltd.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the change in accounting policy and the reclassification of items in the financial statements.
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Dentsu Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 2 *Share Based Payments* in respect of group settled share based payments.
- Certain disclosures required by IAS 36 *Impairment of Assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements have been prepared on a going concern basis and in making this assessment, management is not aware of any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

New accounting policies applicable from 1 January 2018

From 1 January 2018, the following new standards and amendments are effective in the Company's financial statements:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 introduces a five-step comprehensive framework for determining whether, how much and when revenue is recognised and which is majorly based on performance obligations identified in contracts with customers. It replaced IAS 18 Revenue, IAS 11 construction contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods and services. Determining the timing of the transfer of control, at a point in time or over time requires judgement.

The Company has elected to use the cumulative effect method for transition to IFRS 15, however the cumulative effect on the timing and measurement of revenue as of the commencement date of the standard is not material. Comparative periods have not been adjusted and continue to be reported under IAS 18 'Revenue'. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The application of the standard has changed how the Company presents certain elements of work in progress and prepayments where they are identified to relate to contracts with customers. These balances include costs incurred on behalf of clients and other third-party costs that have not yet been billed to clients and are therefore considered receivable under IFRS 15. Such balances are now presented as trade receivables and accrued income in the balance sheets. Comparative periods have not been adjusted,

Revenue

The Company recognises revenue when it has a binding contract with a customer. Revenue is recognised as it transfers control of a service to a customer. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties where the Company is acting as an agent. The Company acts as a principal when the services are controlled by the Company prior to being transferred to customers. An assessment of key indicators including pricing discretion and primary responsibility, is performed to establish if the Company is an agent or a principal in a particular contract.

Most of the Company's contracts include many interconnected activities which are provided to the customer. In most instances, these activities are not considered distinct, or represent a series of activities which are substantially the same with the same pattern of transfer to the customer. As such, these activities are accounted for as a single performance obligation. However, when there are contracts with activities which are capable of being distinct, these are recognised as separate performance obligations. Where there are contracts with multiple performance obligations, the transaction price is allocated to the separate transaction prices based on relatives stand-alone selling prices.

Revenue is recognised as the performance obligation to which it relates is satisfied. The Company's revenue is recognised over time. When the Company recognises revenue over time it uses an appropriate measure, commensurate to the pattern of transfer of the service to the customer, to determine the rate of revenue recognition.

Notes *(continued)*

1 Accounting policies *(continued)*

These include:

- Straight line
- In proportion to the level of time worked as a percentage of total expected time worked on the contract

When revenue is in the form of a retainer, it is a stand-ready obligation to perform services on an ongoing basis over the life of the contract, and it is recognised over time on a straight-line basis.

Contracts may include variable consideration, such as performance related fees, which are part of the transaction price. Such fees are recognised in line with the revenue recognised in respect of the underlying performance obligation, to the extent that is not highly probable to result in a significant reversal.

Costs of obtaining a contract are expensed as the vast majority of the Company's contracts run for 12 months or less.

Costs incurred on behalf of clients and other third-party costs that have not yet been billed to clients are considered receivables under IFRS 15 and therefore are presented with trade receivables and accrued income in the balance sheet.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

- Leasehold improvements – over the length of the lease
- Office furniture, fixtures, fittings and equipment – 5 years
- Computers – 3 to 5 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless

Notes *(continued)*

1 Accounting policies *(continued)*

the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is exempt under FRS101 from the disclosure requirements of IFRS 13. There was no impact on the Company from the adoption of IFRS 13.

Cash at bank and in hand

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Financial assets

Classification and measurement of financial assets

All financial assets are initially measured at fair value. Management determines the classification and subsequent measurement of the financial asset based on the contractual terms at the initial recognition date. The classification and subsequent measurement include the following:

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Current trade receivables do not carry any interest charge. Interest may be charged on overdue balances.

Financial assets at amortised cost

The Company classifies its financial assets as measured at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

All receivables are categorised as amortised cost.

Financial assets at fair value through profit or loss

The Company classifies the following financial assets and derivative financial assets at fair value through profit or loss (FVPL). Financial assets carried at FVPL are initially recorded at fair value. Any subsequent changes in fair value is recorded in profit or loss:

- Debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income (FVOCI).
- Equity investments that are held for trading, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Impairment of financial assets

The Company considers evidence of impairment for these assets at both an individual asset and a collective level at each reporting date. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified.

Additionally, the Company has trade and other receivables that are subject to IFRS 9's new expected credit loss model. Therefore, the Company was required to amend its impairment methodology for trade and other receivables.

Notes *(continued)*

1 Accounting policies *(continued)*

The impact of the change in impairment methodology on the Company's retained earnings and equity is disclosed in statement of changes in equity.

While cash and cash equivalents and some of other financial assets (non-current and current) measured at amortised cost such as loan receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which us a lifetime expected loss allowance for all trade and other receivables. This resulted in an increase in the loss allowance on 1 January 2018 by £11,000.

Offsetting of balances within financial assets

The Company does not offset its financial assets and liabilities except where there is a legally enforceable right to do so.

Financial liabilities and equity

Classification and measurement

Management determines the classification of its financial liabilities as either debt or equity at initial recognition according to the substance of the contractual arrangements entered into. All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVPL. The classifications include the following:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss (FVPL) are either designated in this category, or they are held for trading, such as an obligation for securities borrowed in a short sale which are required to be returned in the future. Derivatives are also categorised as 'held for trading' unless they are designated as hedges. Subsequent to initial recognition, financial liabilities at fair value through profit or loss measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities measured at amortised cost using the effective interest method

Other financial liabilities measured at amortised cost using the effective interest method are non-derivative financial liabilities which are not designated on initial recognition as liabilities at fair value through profit or loss. Any subsequent interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity instruments. Equity instruments issued by the Company are recorded at the value of proceeds received, net of direct issue costs.

Derivative financial instruments

The Company's activities expose it to certain financial risks including changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures where they are considered to be significant. The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are held at fair value at the balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Notes *(continued)*

1 Accounting policies *(continued)*

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges, are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in this way are recognised in the profit and loss account in the same period in which the hedged firm commitments or forecast transactions are recognised in the profit and loss account.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the profit and loss account as they arise. Although hedge accounting does not apply in these instances, the changes in the fair value may result in a natural hedge.

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

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 generally recognised for all taxable temporary differences and 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 goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax has been presented in current assets in line with the requirement of FRS 101.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

Notes *(continued)*

1 Accounting policies *(continued)*

The contributions are recognised as an expense when they fall due. Amounts not paid are shown as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the fair value of the assets at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, less any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

Critical accounting estimates and judgements

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Key sources of estimation uncertainty

Revenue recognition

Judgement is required in selecting the appropriate timing and amount of revenue recognised, particularly where the Company recognises variable consideration. Revenue is only recognised to the extent that it is not highly probable to result in significant reversal and, where there is a performance related element, to the extent to which the performance criteria have been met.

Recoverability of receivables

The likelihood of collection of trade receivables also requires judgement to be applied. The Company monitors the levels of provisioning required based on historical trends and by detailed review of individually significant balances. The Company establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability the directors consider factors such as the aging of receivables, past experience of recoverability, and the credit profile of individual or groups of customers.

Notes *(continued)*

2 Turnover

The analysis of the Company's turnover for the year from continuing operations by geographical market is as follows:

Geographical market:	2018 £000	2017 £000
UK & Europe	21,606	18,662
Rest of the World	4,989	523
	26,595	19,185

Turnover analysed by class of business:	2018 £000	2017 £000
Management consultancy activities	**26,595**	19,185

3 Expenses and auditor's remuneration

Included in the Profit and Loss Account are the following:

	2018 £000	2017 £000
Auditor's remuneration for the audit of these financial statements	19	19
Exchange (gains)/losses	(30)	85
Depreciation expense	701	392
Operating leases expenses	112	112

There are no amounts receivable by the Company's auditor and its associates in respect of services to the Company other than the audit of the Company's financial statements.

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	2018 No.	2017 No.
Office and management	**192**	169

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	15,167	10,277
Social security costs	1,515	1,120
Other pension costs - contributions	1,004	753
	17,686	12,150

5 Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	190	53
Company contributions to defined contribution schemes	18	5
	208	58

6 Other interest receivable and similar income

	2018 £000	2017 £000
Interest income		
Other interest income	**17**	3

Notes *(continued)*

7 Taxation

(a) Recognised in the profit and loss account

	2018	2017
	£000	£000
UK Corporation Tax		
Current tax on income for the period	219	403
Adjustments in respect of prior periods	3	12
	222	415
Deferred Tax		
Origination and reversal of temporary differences	(80)	43
Changes in tax rate	3	-
	(77)	43
Total tax charge	**145**	458

(b) Change in corporation tax rate

The main rate of corporation tax for 2018 is 19%, however the UK Government enacted legislation which will reduce the rate to 17% from 1 April 2020. It is expected that this will reduce any future current tax charge accordingly.

(c) Reconciliation of effective tax rate

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (2017: 19.25%). The differences are explained below:

	2018	2017
	£000	£000
Profit before tax	644	2,203

	2018	2017
	£000	£000
Expected tax charge based on UK corporation tax rate of 19.00% (2017: 19.25%)	122	424
Effect of expenses not deductible in determining taxable profit	24	21
Income not taxable	(3)	-
Adjustment in respect of prior years	6	12
Effect of change in UK corporation tax rate	9	(6)
Fixed asset differences	9	7
Other tax adjustments, reliefs and transfers	(22)	-
Tax credit on ordinary activities	**145**	458

Notes *(continued)*

8 Intangible assets

	Software £000	Total £000
Cost		
Balance at 1 January 2018	-	-
Additions	427	427
Balance at 31 December 2018	427	427
Amortisation		
Balance at 1 January 2018	-	-
Amortisation charge for the year	232	232
Balance at 31 December 2018	232	232
Net book value		
At 31 December 2017	-	-
At 31 December 2018	**195**	**195**

9 Tangible fixed assets

	Leasehold improvements	Fixtures and fittings	Computers	Total
	£000	£000	£000	£000
Cost				
Balance at 1 January 2018	213	204	2,158	2,575
Additions	-	-	514	514
Balance at 31 December 2018	213	204	2,672	3,089
Depreciation				
Balance at 1 January 2018	40	130	1,229	1,399
Depreciation charge for the year	46	28	627	701
Balance at 31 December 2018	86	158	1,856	2,100
Net book value				
At 31 December 2017	173	74	929	1,176
At 31 December 2018	**127**	**46**	**816**	**989**

Notes *(continued)*

10 Debtors

	2018	2017
	£000	£000
Trade debtors	4,213	3,488
Amounts owed from related parties	4,687	3,333
Prepayments and accrued income	1,663	1,486
Other debtors	6	10
	10,569	8,317

Trade debtors above are classified as loans and receivables and are therefore measured at amortised cost.

11 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Trade creditors	504	440
Accruals and deferred income	2,954	1,852
Taxation and social security	1,059	1,105
Amounts due to related parties	774	1,132
	5,291	4,529

12 Deferred tax assets

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Short term timing differences	**Fixed asset timing differences**	**Losses and other deductions**	**Total**
	£000	**£000**	**£000**	**£000**
Deferred tax asset at 31 December 2017	(24)	(23)	20	(27)
Credit to profit or loss	3	(60)	(20)	(77)
Deferred tax asset at 31 December 2018	(21)	(83)	-	(104)

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018	2017
	£000	£000
Deferred tax assets	**104**	27

Notes *(continued)*

13 Capital and reserves

Share capital

	Ordinary Shares	
In thousands of shares	**2018**	2017
On issue at 1 January	13,081	13,081
On issue at 31 December – fully paid	**13,081**	13,081

	2018	2017
	£000	£000
Allotted, called up and fully paid		
Ordinary shares of £0.10 each	1,308	1,308
	1,308	1,308

The shares have full voting rights and are not redeemable.

14 Operating leases

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases are as follows:

Land and buildings	**2018**	2017
	£000	£000
Within one year	112	112
Between one and five years	196	308
	308	420

Operating lease expenses in the profit and loss account represent the rental expenses of the Company's Bristol offices.

15 Share premium

On 19 December 2017 the Company passed a special resolution to reduce the capital of the Company, by cancelling the share premium account of £6,345,000 and thereby creating distributable reserves of £6,345,000.

16 Events after the reporting date

As part of Merkle restructuring in the UK, on 1st January 2019 Merkle UK One Limited acquired the trade and assets of Merkle UK Two Limited and acquired 100% of the ordinary share capital of Merkle SL.

The Company has taken advantage of the exemption offered by FRS 101 not to disclose certain information required by IFRS 3 Business Combinations.

Notes *(continued)*

17 Ultimate parent company and parent company of larger group

The immediate parent company is Merkle Marketing Limited, a company registered in England and Wales. The smallest group in which the results of the Company are consolidated is that headed by Dentsu Aegis Network Ltd, whose registered address is 10 Triton Street, Regent's Place, London, United Kingdom, NW1 3BF.

The ultimate parent company and controlling party is Dentsu Inc., a company incorporated in Tokyo and registered in Japan. The consolidated financial statements of these groups can be obtained from: The Secretary, Dentsu Inc., 1-8-1 Higashi-shimbashi, Minato-ku, Tokyo 105-7001.