

# **Merkle UK Three Limited**

Annual report and financial statements

Registered number 05134352

31 December 2022

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**Company Information**

**Directors**

A Stagg  
N Storey (appointed 13 March 2023)  
D Romijn (resigned 5 April 2023)  
B Isenberg (resigned 23 September 2022)

**Company number**

05134352

**Registered office**

10 Triton Street  
Regent's Place  
London NW1 3BF

## Strategic report

The directors present their Strategic report for the year ended 31 December 2022.

### Fair review of the business

The results of Merkle UK Three Limited ("the Company") for the year are set out in the Profit and Loss Account and Other Comprehensive Income on page 9. The Company recorded revenue of £22,049,267 (2021: £41,000,419). The profit before tax was £4,596,418 (2021: £11,782,473).

The Balance Sheet on page 10 shows the Company's financial position. At 31 December 2022, the Company was in a positive net equity position of £36,467,424 (2021: positive equity position of £32,180,841).

The Company has retained its focus on management of three core activities in Digital Marketing: Paid Search, Programmatic Display and Analytic consultancy, and also continued to build out new capabilities in Search Engine Optimisation (SEO), Performance Creative and Customer Experience. The immediate parent company is Merkle Marketing Limited and the ultimate parent company is Dentsu Group Inc.

### Key performance indicators

- Revenue decreased by 2.1% in 2022 (2021: 21.1% increase). This is driven by an organisational restructure as of 1 January 2022. Analytics, SEO and Creative offerings moved to Merkle UK One and Merkle EC.

	2022	2021
	£	£
<b>Revenue</b>	<b>22,049,267</b>	41,000,419
<b>Revenue Growth</b>	<b>-46.2%</b>	21.1%
<b>PBT</b>	<b>4,596,418</b>	11,782,473
<b>PBT margin</b>	<b>20.8%</b>	28.7%

### Principal risks and uncertainties

The Company faces a range of market, strategic, financial, legal, operational and human resource risks. During 2022, 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.

**Strategic report (continued)**

**Principal risks and uncertainties (continued)**

**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**

- We have credit insurance in place and work to maintain 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.

**3. Weak economic conditions**

**Risk description**

- Weak economies can cause clients to reduce marketing spend.
- Covid-19 pandemic impact in economy and, therefore, in our clients' results can impact our result and put in risk our going concern.

**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.
- Monitor clients' situation and payments along with adding stronger controls and checks in our credit insurance.
- To have a cost review plan in different phases to adjust the business' cost base depending on the impact suffered (from non-essential spend to stronger measures).

**Risk mitigation actions**

- Diversify the business into faster-growing product areas.
- 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.

**Strategic report (continued)**

**Principal risks and uncertainties (continued)**

**4. Maintaining a sound financial position (continued)**

**Potential risk impact**

- a. Lack of funds for current operations and future growth.

**Risk management strategy**

- b. Maintain sufficient access to the group cash-pooling arrangement, 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**

- c. The Company has cash pooling arrangements in place with relationship banks through Dentsu International Ltd.
- d. Daily cash reporting for all operations is maintained.
- e. Minimum headroom limits are monitored regularly.

**5. Managing the security of data**

**Risk description**

- a. 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**

- b. Loss of profit and/or reputational damage.
- c. Material fines from regulatory bodies resulting from non-compliance.

**Risk management strategy**

- d. 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**

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

**6. Ensuring legal and regulatory compliance**

**Risk description**

- a. The Company may be unprepared for legislative and regulatory changes.

**Potential risk impact**

- b. Loss of profit.
- c. Loss of license to operate and/or market.
- d. Damage to management reputation and credibility.

**Risk management strategy**

- e. Ensure compliance with a range of legal and contractual requirements in markets the Company operates in.

**Risk mitigation actions**

- f. 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.
- g. Online compliance training packages are developed to supplement face-to-face training.
- h. The Company uses the group's 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.

## Strategic report (continued)

### Position of the business and future developments

Building upon the solid platform of services contained within the Company, and now within the Group companies, the Company will focus on developing a compelling People Based Marketing proposition, by being uniquely positioned to assist clients with their addressable customer marketing strategy. Developing our client portfolio is key for Merkle, and a key objective is to maintain and continually improve our quality of services delivered to our existing and prospective clients, whilst being able to measure the added value we can deliver to a client's objectives. We anticipate strong demand and growth over the coming years.

### Section 172(1) statement

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result, the directors of the Company are required to give an annual statement on how they have discharged their duty under section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole and with regard to broader stakeholder interests. The directors are required to have had regard to the matters set out in section 172(1) (a) to (f) during the year, as required by section 414CZA of the Companies Act 2006.

A description of how the directors have performed their Section 172 duties during the financial year through stakeholder engagement is included below. These activities are generally undertaken at either a UK- or Group-wide level within the Dentsu International group ("the Group").

#### Employees

The Company depends on the commitment, talent, creative abilities and technical skills of its people. Engagement and clear communication are particularly important during a period of organisational restructuring. Engagement with the workforce is achieved through:

- The systematic provision of information covering matters that concern both the business in general, and employees specifically. This is done through event-specific electronic communications (e.g. Dentsu International's mid- and year-end results); regular emails and business line or business unit-specific emails; and several electronic platforms for employee reference, including an intranet;
- Bi-annual employee satisfaction surveys;
- Townhalls;
- Consultation with specific groups/individual employees regularly so that their views can be considered in making decisions about matters which affect them; and
- Disclosure of gender pay gap and pay comparison.

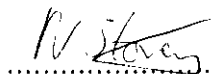
#### Customers

The Company engages with its customers through dedicated client relationship teams, as well as global client management teams established in regional offices to maintain strong customer relationships. The Company develops various services, with an emphasis on innovation for clients and managing any conflicts of interest with multiple agencies. Due diligence is undertaken for all new clients and written contracts must be in place before commencing any significant work.

#### Shareholders

The Company is a 100% subsidiary of Merkle Marketing Limited, and the smallest group in which the results of the Company are consolidated is the group headed by Dentsu International Limited. The directors consider engagement with the Group to be strong, and the flow of information regarding the Company's activities transparent. Dentsu International Limited is kept informed about the Company's performance through various management forums, which assists the Group in making decisions and reviewing performance as "One Dentsu".

By order of the Board



N Storey  
Director

Date: 17 January 2024  
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 Three Limited ("the Company") for the year ended 31 December 2022.

### **Research and development**

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

### **Engagement with suppliers, customers and others in a business relationship with the Company**

Please refer to the Strategic Report where this is explained.

### **Financial instruments**

The Company did not use derivative financial instruments in 2022 (2021: Nil).

### **Proposed dividend**

There were no dividends paid or declared in 2022 (2021: Nil).

### **Directors**

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

A Stagg

N Storey (appointed 13 March 2023)

D Romijn (resigned 5 April 2023)

B Isenberg (resigned 23 September 2022)

### **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 donations**

The Company made no political donations or incurred any political expenditure during the year.

### **Going concern**

The Company has net assets of £36,467,424 (2021: £32,180,841) and net current assets of £36,207,734 (2021: £31,251,974). The financial statements are prepared on a going concern basis, which the directors consider to be appropriate.

The Company meets its day-to-day working capital requirements through cash generated from its trading and the use of a cash-pooling facility provided to participating subsidiaries in the group headed by Dentsu International Limited ("the Group"). The cash-pooling facility involves the daily closing cash position for participating subsidiaries, whether positive or negative, being cleared to £nil via daily bank transfers to / from Dentsu International Limited, and the Company can draw down on the cash pool to enable it to pay its obligations as they fall due, where required.

The directors have assessed the Company's cash flow forecasts for the period of not less than 12 months from the date of the approval of these financial statements ("the going concern assessment period"), including a short-term decline in revenue growth and the measures the Company has undertaken to protect operating margins and preserve cash, and are satisfied that the Company has sufficient cash to meet its liabilities as they fall due during the going concern assessment period, as long as it can continue to draw down on funds from the cash-pooling facility during this period as required. The Company is therefore dependent on the Dentsu



**Directors' report** *(continued)*

International Limited to ensure that the cash-pooling facility remains available to the Company and has sufficient funds in the going concern assessment period.

Dentsu International Limited is itself reliant on continued and additional financial support from Dentsu Group Inc. (the ultimate parent) during the going concern assessment period. Dentsu Group Inc. has indicated its intention to continue to make available such funds to Dentsu International Limited to enable Dentsu International Limited to meet its financial liabilities (and where necessary the financial liabilities of its subsidiaries) as they fall due and continue to trade for the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Also, as with any company providing and accessing its funds to/from the cash pool, the directors acknowledge that there can be no certainty that the Group cash-pooling facility will continue, although, at the date of approval of these financial statements, they have no reason to believe that this facility will not continue to be made available to the Company.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

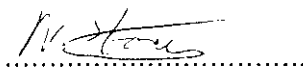
**Other information**

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.

**Audit exemption**

For the year ending 31 December 2022 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

By order of the Board



**N Storey**  
Director

Date: 17 January 2024.....

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

## **Statement of directors' responsibilities in respect of the strategic report, the directors' 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.

**Profit and Loss Account and Other Comprehensive Income  
for the year ended 31 December 2022**

	<i>Note</i>	<b>2022</b> £	2021 £
<b>Revenue</b>	<i>2</i>	22,049,267	41,000,419
Operating expenses		(17,452,849)	(29,217,946)
<b>Profit before tax</b>		<b>4,596,418</b>	11,782,473
Tax on profit on ordinary activities	<i>5</i>	(309,835)	(1,983,049)
<b>Profit for the year</b>		<b>4,286,583</b>	9,799,424
Other comprehensive income		–	–
<b>Total comprehensive income for the year</b>		<b>4,286,583</b>	9,799,424

The notes on pages 12 – 23 form an integral part of these financial statements.

The profit and loss account has been prepared on the basis that all operations are continuing operations.

**Balance Sheet**  
**as at 31 December 2022**

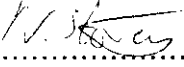
	Note	2022 £	2021 £
<b>Fixed assets</b>			
Tangible fixed assets	6	73,171	916,535
Deferred tax assets	9	186,519	142,813
		<u>259,690</u>	<u>1,059,348</u>
<b>Current assets</b>			
Debtors	7	105,353,210	76,868,292
Cash at bank and in hand		3,075,697	6,870,871
		<u>108,428,907</u>	<u>83,739,163</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>(72,221,173)</u>	<u>(52,487,189)</u>
<b>Net current assets</b>		<u>36,207,734</u>	<u>31,251,974</u>
<b>Total assets less current liabilities</b>		36,467,424	32,311,322
<b>Creditors: amounts falling due after more than one year</b>			
Provisions	10	–	(130,481)
<b>Net assets</b>		<u>36,467,424</u>	<u>32,180,841</u>
<b>Capital and reserves</b>			
Share capital	12	125	125
Share premium	13	113,150	113,150
Capital redemption reserve	14	14,532	14,532
Profit and loss account		36,339,617	32,053,034
<b>Shareholders' funds</b>		<u>36,467,424</u>	<u>32,180,841</u>

For the year ending 31 December 2022, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

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

  
.....  
**N Storey**  
Director

Date: 17 January 2024  
10 Triton Street, Regent's Place, London, NW1 3BF

Company Registration No. 05134352

The notes on pages 12 – 23 form an integral part of these financial statements.

**Statement of Changes in Equity  
for the year ended 31 December 2022**

	Share capital £	Share premium £	Capital redemption reserve £	Profit and Loss account £	Total £
Balance at 1 January 2021	125	113,150	14,532	22,253,610	22,381,417
Total comprehensive income for the year	–	–	–	9,799,424	9,799,424
Balance at 31 December 2021	125	113,150	14,532	32,053,034	32,180,841
Balance at 1 January 2022	125	113,150	14,532	32,053,034	32,180,841
Total comprehensive income for the year	–	–	–	4,286,583	4,286,583
<b>Balance at 31 December 2022</b>	<b>125</b>	<b>113,150</b>	<b>14,532</b>	<b>36,339,617</b>	<b>36,467,424</b>

The notes on pages 12 – 23 form an integral part of these financial statements.

## Notes

(forming part of the financial statements)

### 1 Accounting policies

#### Company information

Merkle UK Three Limited ("the Company") is a private company limited by shares incorporated in England and Wales. The registered office is 10 Triton Street, Regent's Place, London, United Kingdom, NW1 3BF.

#### 1.1 Accounting convention

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 accounting standards in conformity with the requirements of the Companies Act 2006 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 Group Inc, includes the Company in its consolidated financial statements. The consolidated financial statements of Dentsu Group Inc. are prepared in accordance with International Financial Reporting Standards and are available to the public and be obtained from the Secretary, Dentsu Group Inc. 1-8-1 Higashi-shimbashi, Minato-ku, Tokyo, 105-70001. The smallest group in which the results of the Company are consolidated is the group headed by Dentsu International Limited.

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

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue
- Certain disclosures regarding leases
- 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;
- 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 Group 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 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.

The financial statements have been prepared on the historical cost basis.

**Notes** *(continued)*

**1.2 Going concern**

The Company has net assets of £36,467,424 (2021: £32,180,841) and net current assets of £36,207,734 (2021: £31,251,974). The financial statements are prepared on a going concern basis, which the directors consider to be appropriate.

The Company meets its day-to-day working capital requirements through cash generated from its trading and the use of a cash-pooling facility provided to participating subsidiaries in the group headed by Dentsu International Limited ("the Group"). The cash-pooling facility involves the daily closing cash position for participating subsidiaries, whether positive or negative, being cleared to £nil via daily bank transfers to / from Dentsu International Limited, and the Company can draw down on the cash pool to enable it to pay its obligations as they fall due, where required.

The directors have assessed the Company's cash flow forecasts for the period of not less than 12 months from the date of the approval of these financial statements ("the going concern assessment period"), including a short-term decline in revenue growth and the measures the Company has undertaken to protect operating margins and preserve cash, and are satisfied that the Company has sufficient cash to meet its liabilities as they fall due during the going concern assessment period, as long as it can continue to draw down on funds from the cash-pooling facility during this period as required. The Company is therefore dependent on the Dentsu International Limited to ensure that the cash-pooling facility remains available to the Company and has sufficient funds in the going concern assessment period.

Dentsu International Limited is itself reliant on continued and additional financial support from Dentsu Group Inc. (the ultimate parent) during the going concern assessment period. Dentsu Group Inc. has indicated its intention to continue to make available such funds to Dentsu International Limited to enable Dentsu International Limited to meet its financial liabilities (and where necessary the financial liabilities of its subsidiaries) as they fall due and continue to trade for the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Also, as with any company providing and accessing its funds to/from the cash pool, the directors acknowledge that there can be no certainty that the Group cash-pooling facility will continue, although, at the date of approval of these financial statements, they have no reason to believe that this facility will not continue to be made available to the Company.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**Notes (continued)**

**1.3 Revenue**

Revenue comprises amounts from contracts with customers and media supplier rebates. Revenue from contracts with customers is derived from arrangement involving fees for services provided, as agreed upon with each third-party customer and other group companies. Media supplier rebates are amounts received from media suppliers when certain pre-agreed spending levels are achieved.

Given the Company is predominantly an agency business, revenue is recognised net of amounts collected on behalf of third parties and Value Added Taxes, in line with the underlying arrangement with customers.

The Company's major source of revenue is digital marketing which comprises of three core activities: Paid search, Programmatic and Analytic consultancy. The Company acts as an agent in rendering these services and recognises revenue when it has a binding contract with customers. The performance obligation is satisfied and recognised over time in proportion to the level of time worked as a percentage of total expected time worked on a contract.

Cost of obtaining contracts are expensed as the vast majority of the Company's contracts runs for 12 months or less.

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 relative stand-alone selling prices.

*Assets and liabilities related to contracts with customers*

Contract assets primarily relate to the company's rights to consideration for work completed but not billed at the reporting date. These are presented within trade receivables and accrued income and mainly represent accrued income where a performance obligation has been satisfied but the right to consideration is conditional and has not yet been billed. Deferred income balances presented within Trade and other payables in the balance sheet are considered contract liabilities.

**1.4 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 lease term
Fixtures and fittings	25% straight line
Office Equipment	33.33% straight line

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.



**Notes (continued)**

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

**1.6 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 FRS 101 from the disclosure requirements of IFRS 13.

**1.7 Cash at bank and in hand**

Cash and cash equivalents include cash in hand and deposits held at call with banks.

**1.8 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. All of the Company's financial assets are classified and subsequently measured at amortised cost described below:

**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 of the Company's financial assets, which includes trade and other receivables and cash, are categorised and valued at amortised cost. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Notes (continued)**

**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.

While cash and cash equivalents and some of other financial assets (non-current and current) measured at amortised cost 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 uses a lifetime expected loss allowance for all trade and other receivables.

**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 and there is an intention to settle on a net basis.

**1.9 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 as described below:

**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.

**1.10 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.

**Notes (continued)**

**1.11 Provisions**

Provisions are recognised when the Company has a legal or constructive present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**1.12 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.

**1.13 Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

**1.14 Leases**

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*As a lessee*

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

**Notes (continued)**

**1.14 Leases (continued)**

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
  - the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss. The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'Creditors' in the statement of financial position.

*Short-term leases and leases of low-value assets*

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**1.15 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. The financial statements have been presented in Pounds Sterling (GBP) which is the Company's functional currency.

**1.16 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.

**Notes (continued)**

**2 Revenue**

	2022	2021
	£	£
<b>Revenue analysed by geographical market</b>		
United Kingdom	26,843,296	31,083,237
Europe	5,405,450	5,238,843
Rest of World	614,421	4,678,339
	<u><b>22,049,267</b></u>	<u><b>41,000,419</b></u>
	£	£
<b>Revenue analysed by activity</b>		
Performance Media	22,049,267	24,754,035
Analytics	–	9,995,430
Customer Experience	–	6,250,954
Revenue from contracts with customers	<u><b>22,049,267</b></u>	<u><b>41,000,419</b></u>

**Assets and liabilities related to contracts with customers**

Contract liabilities relate to advanced consideration received but not recognised as revenue at the period end and consists of deferred income (note 8) of £29,203,172 (2021: £14,013,420).

Revenue recognised in the reporting period that had been included in the contract liability balance at the beginning of the period was £14,013,420. Revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods is immaterial.

**3 Operating profit**

Included in the Profit and Loss Account are the following:

	2022	2021
	£	£
Operating profit for the year is stated after charging/(crediting):		
Exchange losses	674,469	88,627
Depreciation of property, plant and equipment	856,588	1,978,629

**Notes (continued)**

**4 Employees**

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

	<b>2022</b>	2021
	<b>Number</b>	Number
Direct functions	217	384
Admin	8	18
	<u><b>225</b></u>	<u>402</u>

Their aggregate remuneration comprised:

	<b>2022</b>	2021
	£	£
Wages and salaries	10,045,737	18,776,170
Social security costs	1,068,890	1,959,651
Pension costs	573,215	976,172
	<u><b>11,687,842</b></u>	<u>21,711,993</u>

Directors' remuneration was nil for the year ended 31 December 2022 (2021: £nil) because the Directors are employed and remunerated by other companies within the Merkle Group and do not receive remuneration for services to the Company.

**5 Income tax expense**

	<b>2022</b>	2021
	£	£
<b>Current tax</b>		
UK corporation tax on profits for the current period	615,421	2,092,651
Adjustments in respect of prior periods	(261,880)	2,113
<b>Total UK current tax</b>	<b>353,541</b>	2,094,764
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(43,706)	(111,715)
<b>Total tax charge</b>	<u><b>309,835</b></u>	<u>1,983,049</u>

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

Profit before taxation	<u><b>4,596,418</b></u>	11,782,473
Corporation tax in the UK of 19% (2021 19%)	873,320	2,238,670
Effect of expenses not deductible in determining taxable profit	23,162	29,748
Group relief	(312,981)	(251,366)
Adjustments in respect of prior years	(261,880)	2,113
Change in deferred tax rate	-	(9,821)
Other tax adjustments, reliefs and transfers	(11,786)	(26,295)
<b>Taxation charge for the year</b>	<u><b>309,835</b></u>	<u>1,983,049</u>

**Notes (continued)**

**6 Tangible fixed assets**

	Right-of-use asset £	Leasehold improvements £	Fixtures and fittings £	Office Equipment £	Total £
<b>Cost</b>					
At 1 January 2022	3,761,654	2,084,325	749,601	902,387	7,497,967
Additions & Disposals	–	13,224	–	–	13,224
At 31 December 2022	<b>3,761,654</b>	<b>2,097,549</b>	<b>749,601</b>	<b>902,387</b>	<b>7,511,191</b>
<b>Depreciation</b>					
At 1 January 2022	3,440,599	1,620,337	749,208	771,288	6,581,432
Charge for the year	321,055	452,746	393	82,394	856,588
At 31 December 2022	<b>3,761,654</b>	<b>2,073,083</b>	<b>749,601</b>	<b>853,682</b>	<b>7,438,020</b>
<b>Carrying amount</b>					
At 31 December 2022	–	<b>24,466</b>	–	<b>48,705</b>	<b>73,171</b>
At 31 December 2021	321,055	463,988	393	131,099	916,535

**7 Debtors**

	2022 £	2021 £
Trade debtors	28,570,976	19,471,055
Amounts owed by fellow group undertakings	55,112,281	38,174,728
Prepayments	21,669,953	19,222,509
	<b>105,353,210</b>	<b>76,868,292</b>

**8 Creditors: amounts falling due within one year**

	2022 £	2021 £
Trade creditors	16,959,672	12,777,855
Amounts owed to fellow group undertakings	4,231,200	2,484,023
Lease liability	–	568,703
Accruals	15,505,213	15,664,890
Deferred income	29,203,172	14,013,420
Corporation tax	2,712,003	2,393,928
Social security and other taxation	3,602,573	4,569,970
Other creditors	7,340	14,400
	<b>72,221,173</b>	<b>52,487,189</b>

**Notes (continued)**

**9 Deferred taxation**

The following are the major deferred tax liabilities and assets recognised by the Company.

	<b>Liabilities</b>	Liabilities	<b>Assets</b>	Assets
	<b>2022</b>	2021	<b>2022</b>	2021
<b>Balances:</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accelerated capital allowances	–	–	(160,122)	945,725
Short-term timing differences	–	–	(26,397)	48,088
	<u>–</u>	<u>–</u>	<u>185,519</u>	<u>142,813</u>

**10 Provisions for liabilities**

	<b>2022</b>	2021
	<b>£</b>	<b>£</b>
Dilapidations provision	–	130,481
Movements on provisions:		Dilapidations provision £
At 1 January 2022		130,481
Utilised during the year		(130,481)
At 31 December 2022		<u>–</u>

The dilapidations provision represented management's best estimate of the cost of the Company's obligations under various land and buildings operating lease arrangements.

As at 31 December 2022 the company has no lease arrangements.

**11 Retirement benefit schemes**

**Defined contribution schemes**

The Company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £573,215 (2021: £976,172).

**12 Share capital**

	<b>2022</b>	2021
	<b>£</b>	<b>£</b>
<b>Ordinary share capital</b>		
Issued and fully paid		
*125,150 Ordinary shares of 0.1p each	<b>125</b>	125

Ordinary shares:

All the ordinary shares rank pari passu in all respects. Each share is entitled to one vote in any circumstance, each share has equal rights to dividends. Each share is entitled to participate in a distribution arising from winding up the Company.



**Notes (continued)**

**13 Share premium**

This relates to consideration received for shares issued above their nominal value net of transaction costs.

**14 Capital redemption reserve**

The nominal value of shares repurchased and still held at the end of the reporting period.

**15 Financial commitments, guarantees and contingent liabilities**

The Company is party to a cross guarantee with its parent, Merkle Marketing Limited, whereby the assets of the Company are secured by the way of a debenture.

**16 Leases**

The Company no longer leases any building for its offices. The Company operates from its registered address, which is leased under Dentsu UK Limited.

**Right-of-use assets**

Right-of-use assets related to lease properties that do not meet the definition of investment properties but presented as tangible fixed assets (note 7):

	<b>Land and Buildings</b>	
	<b>£</b>	
Balance at 1 January 2022	321,055	
Adjustments to right-of-use assets	—	
Depreciation charge for the year	(321,055)	
Balance at 31 December 2022	<u>—</u>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>Amounts recognised in profit or loss</b>		
Interest expense on lease liabilities	3,439	92,724
Depreciation expense on right-of-use assets	321,055	970,453
	<u><b>324,494</b></u>	<u><b>1,063,177</b></u>

**17 Controlling party**

The immediate parent undertaking is Merkle Marketing Limited.

The smallest group in which the results of the Company are consolidated is that headed by Dentsu International Limited, whose registered address is 10 Triton Street, Regent's Place, London, NW1 3BF.

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