

Rakuten Marketing Europe Limited

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number 05751526



Rakuten Marketing Europe Limited

Company Information

Directors	A Capano N Stamos A A Patel
Company secretary	C Lin
Registered number	05751526
Registered office	71 Queen Victoria Street 7th Floor Queen Victoria Street 7th Floor London England EC4V 4AY
Independent auditor	BDO LLP Central Square 29 Wellington Street Leeds LS1 4DL
Bankers	Wells Fargo Bank N.A., One Boston Place, 18th Floor, Boston, MA 02108

Rakuten Marketing Europe Limited

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Rakuten Marketing Europe Limited

Strategic Report For the Year Ended 31 December 2019

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2019.

Principal activity

Rakuten Marketing Europe Limited (RME) trades in managed digital marketing services, using owned and sub-contracted digital marketing technologies.

The principal client base is UK, France, and Germany based advertisers that trade online. RME also partners with a broad section of the digital publisher community through which the company creates tailored media plans through both manual and automated media campaigns.

RME is a performance oriented business, meaning the company earns revenue when media buying activities generate revenue for, or meet ROI objectives of, our paying clients.

Business review and future developments

The company has seen an increase in revenue of £1,252,868 against the prior year. The core performance marketing business continues to see strong year results across revenue and profit. In addition, an increase in costs of £3.93m is associated with sustained investment in the business.

RME has continued to realise new revenue streams from ongoing investment in technology and people, and forecasts strong revenue growth over the next three financial years.

Rakuten Inc's sizeable userbase and commitment to growing digital ad revenue across the group means that RME is well placed to maintain the levels of growth it has seen over recent years.

Staffing

With teams based in London and Brighton, RME continues to invest in people and their skills to ensure the company delivers optimal return on investment for our clients and partners.

RME has invested significantly in benefits and incentive plans for staff over the past few years, and the company notes an improved environment, in terms of both staff culture and productivity.

Key Performance Indicators

The key performance indicators which are used to monitor the progress of the company include, but are not limited to:

- Revenue growth
- Gross profit
- Operating profit/loss
- Efficiency metrics (revenue per headcount, operating income per headcount)

Credit risk

RME's principal credit risk is the collection of accounts receivable from clients. The company has strict collection procedures in place to ensure the risk of overdue receivables are minimal, using a third party collections agency when necessary.

Rakuten Marketing Europe Limited

Strategic Report (continued) For the Year Ended 31 December 2019

Key Performance Indicators (continued)

Market risk

The markets which RME operates in are growing in competition and complexity, therefore the company continues to invest in new products, processes and routes to market, while maintaining a strict balance between investment and return, ensuring a consistently growing contribution margin.

Our alignment with sister companies in the UK and overseas, as well as the Rakuten Marketing footprint around the world continues to provide us with firm competitive security, as more clients seek international support and expertise. This has been a principle unique service proposition that RME continues to build upon.

Business risk

The company continues to evaluate and manage potential risks faced by the business including:

- Changes in the legal environment
- Reliance on technology in an ever-changing cyber landscape
- Competition on securing placements with publishers
- Seasonality of online retail sales placing significant emphasis on performance in fourth quarter
- Operational risks arising from damage due to severe weather, cyberattack, supplier dependency, etc.

Going concern and Covid-19

The company's business activities and the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 3. The company is in a net liability position of £18.1m (2018 - £8.9m), with cash balances at the year end of £10m and amounts owed to group undertakings of £30.6m (2018 - £17.2m). The company made a loss after tax for the year of £9.3m (2018 - £4.6m).

The key risk to the company is therefore ensuring that the company has sufficient ability to draw down funds to meet its liabilities as they fall due. The directors of the company have also considered the impact of the Covid-19 virus.

In conducting this review, the directors have considered a range of factors including the markets served by the entity, the stability of customer demand, supply chain resilience and relationships, staff health and retention, financial arrangements and historical and current cashflow performance.

Specifically, in respect of the Covid-19, the directors have considered factors such as the increase in demand for online services seen during the UK lockdown period in 2020, impact on supply chains, staff becoming ill and the government restrictions on businesses permitted to continue to operate.

In undertaking their review, the directors have prepared financial statement projections for the next 12 months from the date of approval of the financial statements. They have applied sensitivities based on lower revenues as a result of the potential impacts of Covid-19 described above. The sensitivity analysis considered mitigating actions available to the directors, including deferring nonessential spend and reliance on support from group should this be required.

In particular, the directors have considered the main markets covered by the business, which are relatively diverse and do not cover any of the industries which are deemed most at risk during the early stages of the Covid-19 crisis, allied to this the business is not overly dependent on any single client.

The company is also not reliant on any particular supplier.

Rakuten Marketing Europe Limited

Strategic Report (continued) For the Year Ended 31 December 2019

Going concern and Covid-19 (continued)


While the directors assess that the going concern assumptions remains appropriate, given the continued loss making position of the company, and the net liability balance position as noted above, it is becoming increasingly clear that there is now a fundamental uncertainty in the economic and health impacts of the current Covid-19 situation and that, in varying degrees, this will affect all businesses in every sector.

The company had no external finance at the year end and meets its day to day working capital requirements through operating cash flows and continued financial support from the wider group.

At year end £30.6m (2018 - £17.2m) was due to group undertakings, notably its parent company, Rakuten Marketing International LLC. It is noted that Rakuten Marketing International LLC is part of the ultimate group, headed by Rakuten Inc. The company has received written confirmation from Rakuten Marketing International LLC that repayment of intercompany balances due, as noted above, will not be sought for at least 12 months from the date of approval of these accounts. In addition, Rakuten Marketing International LLC has provided a written undertaking to provide the company with any additional finance required to enable the company to continue to meet its obligations as they fall due and to carry on its business without a significant curtailment of operations during the same period. However, this written undertaking is not legally binding. Based on these considerations a material uncertainty exists, which may cast significant doubt about the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the company were unable to continue as a going concern.

This report was approved by the board on 22-Feb-2021

and signed on its behalf.


Anthony Capano (Feb 22, 2021 15:53 GMT)

A Capano
Director

Rakuten Marketing Europe Limited

Directors' Report For the Year Ended 31 December 2019

The directors present their report together with the audited financial statements for the year ended 31 December 2019.

Business review

A review of the business and its principal risks and uncertainties is set out in the strategic report on pages 1 to 3 of these financial statements.

Results and dividends

The loss for the year, after taxation, amounted to £9,274,137 (2018 - £4,638,401).

The directors do not recommend the payment of a dividend (2018 - £Nil).

Directors

The directors who served during the year were:

A Capano
N Stamos (appointed 31 March 2019)
A A Patel (appointed 1 July 2019)
Y Iida (resigned 1 July 2019)

K F Dorward resigned after the year end on 10 July 2020.

Future developments

No significant change in the principal activities of the company is expected in the foreseeable future.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Post statement of financial position events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "Covid-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the Covid-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the Covid-19 outbreak continues to evolve as of the date of this report. This is considered a non-adjusting post statement of financial position event, and therefore no impact on the carrying value of assets at the statement of financial position date is noted. Consideration of the impact of this on the going concern status of the business is included in the strategic report and in the going concern accounting policy 2.4.

Auditor


The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Rakuten Marketing Europe Limited

Directors' Report (continued) For the Year Ended 31 December 2019

This report was approved by the board on 22-Feb-2021

and signed on its behalf.


Anthony Capano (Feb 22, 2021 15:53 GMT)

A Capano
Director

Rakuten Marketing Europe Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2019

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Rakuten Marketing Europe Limited

Independent Auditor's Report to the Members of Rakuten Marketing Europe Limited

Opinion

We have audited the financial statements of Rakuten Marketing Europe Limited ("the company") for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.4 to the financial statements which indicates the directors considerations over going concern. The company is dependent on the continued financial support of its parent company, Rakuten Marketing International LLC and there is no legally binding agreement that this will be forthcoming. As stated in note 2.4, these events or conditions, along with other matters as set out in note 2.4, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Rakuten Marketing Europe Limited

Independent Auditor's Report to the Members of Rakuten Marketing Europe Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Rakuten Marketing Europe Limited

Independent Auditor's Report to the Members of Rakuten Marketing Europe Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom

22 February 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Rakuten Marketing Europe Limited

Statement of Comprehensive Income For the Year Ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	14,746,768	13,493,900
Cost of sales		(2,422,636)	(2,428,235)
Gross profit		12,324,132	11,065,665
Administrative expenses		(20,031,278)	(16,103,492)
Other operating income	5	412,152	29,813
Other operating expenses	6	(1,874,081)	-
Operating loss	7	(9,169,075)	(5,008,014)
Interest receivable and similar income	9	-	7,372
Loss before tax		(9,169,075)	(5,000,642)
Tax (charge)/credit on loss	10	(105,062)	362,241
Loss for the year		(9,274,137)	(4,638,401)
Other comprehensive income		-	-
Total comprehensive income for the year		(9,274,137)	(4,638,401)

All amounts relate to continuing operations.

The notes on pages 13 to 27 form part of these financial statements.


Rakuten Marketing Europe Limited

Registered number: 05751526

Statement of Financial Position As at 31 December 2019

	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Intangible assets	11		-		1,976,444
Tangible assets	12		-		810,990
			-		2,787,434
Current assets					
Debtors: amounts falling due within one year	13	10,548,633		6,755,709	
Cash at bank and in hand	6,14	10,963,910		3,845,594	
		21,512,543		10,601,303	
Creditors: amounts falling due within one year	15	(39,642,803)		(22,244,860)	
Net current liabilities			(18,130,260)		(11,643,557)
Net liabilities			(18,130,260)		(8,856,123)
Capital and reserves					
Called up share capital	16	4,326,881		4,326,881	
Profit and loss account	17	(22,457,141)		(13,183,004)	
Total equity			(18,130,260)		(8,856,123)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22-Feb-2021


Anthony Capano (Feb 22, 2021 15:53 GMT)

A Capano
Director

The notes on pages 13 to 27 form part of these financial statements.

Rakuten Marketing Europe Limited

Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2019	4,326,881	(13,183,004)	(8,856,123)
Comprehensive loss for the year			
Loss for the year	-	(9,274,137)	(9,274,137)
Total comprehensive loss for the year	-	(9,274,137)	(9,274,137)
At 31 December 2019	4,326,881	(22,457,141)	(18,130,260)

Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2018	4,326,881	(8,544,603)	(4,217,722)
Comprehensive loss for the year			
Loss for the year	-	(4,638,401)	(4,638,401)
Total comprehensive loss for the year	-	(4,638,401)	(4,638,401)
At 31 December 2018	4,326,881	(13,183,004)	(8,856,123)

The notes on pages 13 to 27 form part of these financial statements.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

1. General information

Rakuten Marketing Europe Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Rakuten Inc. as at 31 December 2019 and these financial statements may be obtained from <http://global.rakuten.com/corp/investors>.

2.3 Consolidated financial statements

The financial statements contain information about Rakuten Marketing Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption conferred by section 400 of the Companies Act 2006 not to produce consolidated financial statements as it is included in non-EEA group accounts of a larger group.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.4 Going concern

The company's business activities and the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 3. The company is in a net liability position of £18.1m (2018 - £8.9m), with cash balances at the year end of £10m and amounts owed to group undertakings of £30.6m (2018 - £17.2m). The company made a loss after tax for the year of £9.3m (2018 - £4.6m).

The key risk to the company is therefore ensuring that the company has sufficient ability to draw down funds to meet its liabilities as they fall due. The directors of the company have also considered the impact of the Covid-19 virus.

In conducting this review, the directors have considered a range of factors including the markets served by the entity, the stability of customer demand, supply chain resilience and relationships, staff health and retention, financial arrangements and historical and current cashflow performance.

Specifically, in respect of the Covid-19, the directors have considered factors such as the increase in demand for online services seen during the UK lockdown period in 2020, impact on supply chains, staff becoming ill and the government restrictions on businesses permitted to continue to operate.

In undertaking their review, the directors have prepared financial statement projections for the next 12 months from the date of approval of the financial statements. They have applied sensitivities based on lower revenues as a result of the potential impacts of Covid-19 described above. The sensitivity analysis considered mitigating actions available to the directors, including deferring nonessential spend and reliance on support from group should this be required.

In particular, the directors have considered the main markets covered by the business, which are relatively diverse and do not cover any of the industries which are deemed most at risk during the early stages of the Covid-19 crisis, allied to this the business is not overly dependent on any single client.

The company is also not reliant on any particular supplier.

While the directors assess that the going concern assumptions remains appropriate, given the continued loss making position of the company, and the net liability balance position as noted above, it is becoming increasingly clear that there is now a fundamental uncertainty in the economic and health impacts of the current Covid-19 situation and that, in varying degrees, this will affect all businesses in every sector.

The company had no external finance at the year end and meets its day to day working capital requirements through operating cash flows and continued financial support from the wider group.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.4 Going concern (continued)

At year end £30.6m (2018 - £17.2m) was due to group undertakings, notably its parent company, Rakuten Marketing International LLC. It is noted that Rakuten Marketing International LLC is part of the ultimate group, headed by Rakuten Inc. The company has received written confirmation from Rakuten Marketing International LLC that repayment of intercompany balances due, as noted above, will not be sought for at least 12 months from the date of approval of these accounts. In addition, Rakuten Marketing International LLC has provided a written undertaking to provide the company with any additional finance required to enable the company to continue to meet its obligations as they fall due and to carry on its business without a significant curtailment of operations during the same period. However, this written undertaking is not legally binding. Based on these considerations a material uncertainty exists, which may cast significant doubt about the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the company were unable to continue as a going concern.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates and value added tax. Revenue is recognised when the service has been rendered.

2.6 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.7 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

The estimated useful lives range as follows:

Leasehold improvements	- 25% straight line
Office equipment	- 7 years straight line
Computer equipment	- 3 years straight line
Assets under construction	- Depreciation to commence upon utilisation of the related asset

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.8 Impairment of fixed assets and intangible assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.9 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash is classified between restricted and unrestricted amounts. Cash that is restricted represents amounts that are received from customers but owed to affiliates. These amounts are managed separately by using separate bank accounts.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.12 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.13 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.14 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the statement of comprehensive income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income. Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

2.15 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.15 Foreign currency translation (continued)

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.16 Pensions

Defined contribution pension plan

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.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.17 Taxation

Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash generating unit, including the viability and expected future performance of that unit. During the year, such indicators highlighted impairment in the recoverable value of the company's tangible and intangible assets, and thus these assets have been fully impaired.
- Determine whether these financial statements should be prepared under the going concern assumptions. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the company, including the continued support as provided by the intermediate parent company, Rakuten Marketing International LLC. See accounting policy 2.4 for further details.

Other key sources of estimation uncertainty

- Recoverability of trade debtors (see note 13)
The recoverability of trade debtors is regularly reviewed in the light of available economic information specific to each debtor and specific provisions are recognised for balances considered to be irrecoverable.
- Research and development expenditure is capitalised to intangible assets based upon staff time allocated to respective projects. Such staff time is recognised when it is deemed increased economic benefits are achieved by the company from the related projects.

4. Turnover

The whole of the turnover is attributable to the principal activity of the company, in both years presented.

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	12,436,744	11,328,156
Rest of Europe	2,068,580	1,939,380
Rest of the world	241,444	226,364
	<u>14,746,768</u>	<u>13,493,900</u>

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

5. Other operating income

	2019 £	2018 £
RDEC Income	412,152	-
Profit on disposal of tangible assets	-	29,813
	<u>412,152</u>	<u>29,813</u>

Research and Development Expenditure Credits (RDEC)

Where the company receives Research and Development Expenditure Credits (RDEC), these are accounted for as government grant income within operating income as it more closely aligns with grant income as opposed to a taxation credit. The income is recognised on the performance model under FRS 102 Section 24 'Government Grants'. The RDEC amounts recognised relate to claims made for the years ending 2017, 2018 and 2019.

6. Other operating expenses

	2019 £	2018 £
Impairment of intangible assets	1,511,414	-
Loss on disposal of fixed assets	362,639	-
Other operating expense	28	-
	<u>1,874,081</u>	<u>-</u>

7. Operating loss

The operating loss is stated after charging:

	2019 £	2018 £
Depreciation of tangible fixed assets	448,351	398,636
Amortisation of intangible assets	585,966	529,583
Loss on disposal of fixed assets	362,639	-
Impairment of intangible assets	1,511,414	-
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	24,000	23,000
Exchange differences	401,627	349,446
Operating lease expense	281,632	301,264
Defined contribution pension cost	335,676	325,142
	<u>4,951,305</u>	<u>1,607,071</u>

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

8. Employees

Staff costs were as follows:

	2019 £	2018 £
Wages and salaries	13,255,980	9,114,933
Social security costs	1,575,125	1,084,352
Cost of defined contribution scheme	335,676	325,142
	<u>15,166,781</u>	<u>10,524,427</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Staff	<u>188</u>	<u>180</u>

During the year payroll costs of £120,936 (2018 - £762,994) were capitalised in relation to qualifying development activity (note 10).

Directors emoluments were as follows:

	2019 £	2018 £
Emoluments	379,610	461,033
Pension	13,745	11,180
	<u>393,355</u>	<u>472,213</u>

9. Interest receivable and similar income

	2019 £	2018 £
Other interest receivable	<u>-</u>	<u>7,372</u>

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

10. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on losses for the year	(85,130)	-
Adjustments in respect of previous periods	190,192	-
	<hr/>	<hr/>
Group relief	-	(119,492)
Total current tax	<hr/> 105,062 <hr/>	<hr/> (119,492) <hr/>
Deferred tax		
Origination and reversal of timing differences	-	(242,749)
Total deferred tax	<hr/> - <hr/>	<hr/> (242,749) <hr/>
Taxation charge/(credit) on loss on ordinary activities	<hr/> 105,062 <hr/>	<hr/> (362,241) <hr/>

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

10. Taxation (continued)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is higher than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	(9,169,075)	(5,000,642)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(1,742,124)	(950,122)
Effects of:		
Fixed asset differences	74,308	103,466
Expenses not deductible for tax purposes	191,621	114,909
Other permanent differences	(63,704)	(32,511)
R&D expenditure credits	(39,806)	-
Group relief surrendered	85,130	115,452
Receipt for group relief	(85,130)	(115,452)
Adjustments to tax charge in respect of prior periods	190,192	-
Change in deferred tax on tax rate	157,323	67,870
Deferred tax not recognised	1,337,252	334,147
Total tax charge/(credit) for the year	105,062	(362,241)

Factors that may affect future tax charges

The company has trade losses of £15,789,695 (2018 - £10,229,434), unclaimed capital allowances of £714,420 (2018 - £1,526,163), a general bad debt provision of £340,995 (2018 - £201,773) and royalty charges which are deductible on a paid basis of £777,043 (2018 - £764,019). No deferred tax assets have been recognised on these timing differences due to uncertainty over the timing of their utilisation.

The UK corporation tax rate reduced to 19% from April 2018. The government announced a further reduction in the main rate of UK corporation tax to 17% from 1 April 2020. Where these reduced tax rates were enacted at the statement of financial position date, they have been reflected in these financial statements as appropriate. The UK government passed a Budget Resolution on 17 March 2020 to retain the 19% corporation tax rate from 1 April 2020. Since this had not been enacted at the statement of financial position date, the unwinding of deferred tax temporary timing differences has been calculated based on 17%. In addition as part of the Finance Act 2018, the UK government has announced that restrictions on interest deductibility and loss relief will be implemented. Draft legislation has been released setting out the new provisions. This may impact the taxable profits of the company as well as the amount of carried forward losses which can be utilised each year to offset taxable profits.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

11. Intangible assets

	Research and development £
Cost	
At 1 January 2019	6,238,613
Additions	120,936
Impairment	(5,777,688)
At 31 December 2019	<u>581,861</u>
Amortisation	
At 1 January 2019	4,262,169
Charge for the year	585,966
On impairment	(4,266,274)
At 31 December 2019	<u>581,861</u>
Net book value	
At 31 December 2019	<u>-</u>
At 31 December 2018	<u>1,976,444</u>

Management in the ultimate parent company, Rakuten Inc, performed an impairment review during the year over the assets within the Rakuten Marketing International LLC sub-group (which includes Rakuten Marketing Europe Limited). Results from this review showed that all of the carrying value of intangible balances within Rakuten Marketing Europe Limited were not considered recoverable (based on relevant discounted cash flow analysis), thus a full impairment has been made to these.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

12. Tangible fixed assets

	Combined office and computer equipment £	Assets under construction £	Leasehold improvements £	Total £
Cost or valuation				
At 1 January 2019	1,165,687	48,000	751,614	1,965,301
Disposals	(530,535)	(48,000)	(751,614)	(1,330,149)
At 31 December 2019	635,152	-	-	635,152
Depreciation				
At 1 January 2019	1,041,569	-	112,742	1,154,311
Charge for the year	127,129	-	321,222	448,351
Disposals	(533,546)	-	(433,964)	(967,510)
At 31 December 2019	635,152	-	-	635,152
Net book value				
At 31 December 2019	-	-	-	-
At 31 December 2018	124,118	48,000	638,872	810,990

Management in the ultimate parent company, Rakuten Inc, performed an impairment review during the year over the assets within the Rakuten Marketing International LLC sub-group (which includes Rakuten Marketing Europe Limited). Results from this review showed that all the carrying value of property, plant and equipment balances within Rakuten Marketing Europe Limited were not considered recoverable (based on relevant discounted cash flow analysis), thus a full impairment has been made to these.

13. Debtors: amounts falling due within one year

	2019 £	2018 £
Trade debtors	3,446,151	3,514,208
Amounts owed by group undertakings	3,917,212	2,334,919
Other debtors	3,185,270	906,582
	10,548,633	6,755,709

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debtors was £422,956 (2018 - £386,256).

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

14. Cash at bank and in hand

	2019 £	2018 £
Restricted cash	4,430,443	722,857
Unrestricted cash	6,533,467	3,122,737
	<u>10,963,910</u>	<u>3,845,594</u>

15. Creditors: amounts falling due within one year

	2019 £	2018 £
Bank loans	361,511	31,647
Trade creditors	967,332	1,351,560
Amounts owed to group undertakings	30,610,070	17,281,730
Corporation tax	31,050	-
Other taxation and social security	756,366	896,935
Other creditors	4,634,229	661,410
Accruals and deferred income	2,282,245	2,021,578
	<u>39,642,803</u>	<u>22,244,860</u>

16. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
4,326,881 ordinary shares of £1 each	<u>4,326,881</u>	<u>4,326,881</u>

17. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Profit and loss account

The profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

Rakuten Marketing Europe Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

18. Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £335,676 (2018 - £325,142). Contributions totalling £10,762 (2018 - £27,943) were payable to the fund at the statement of financial position date and are included in other creditors.

19. Commitments under operating leases

At 31 December 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	379,167	379,167
Later than 1 year and not later than 5 years	315,972	695,139
	<u>695,139</u>	<u>1,074,306</u>

20. Related party transactions

The company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary of the group.

21. Post statement of financial position events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "Covid-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the Covid-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the Covid-19 outbreak continues to evolve as of the date of this report. This is considered a non-adjusting post statement of financial position event, and therefore no impact on the carrying value of assets at the statement of financial position date is noted. Consideration of the impact of this on the going concern status of the business is included in the strategic report and in the going concern accounting policy 2.4.

22. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of Rakuten Marketing International LLC, a company incorporated in the United States of America. The ultimate parent company is Rakuten Inc. which is incorporated in Japan.

The largest group in which results of the company are consolidated is that headed by Rakuten Inc. The consolidated accounts of this company are available to the public at: <http://global.rakuten.com/corp/investors>.