McCann-Erickson Advertising Limited

Directors' Report, Strategic Report and Financial Statements

Year ended 31 December 2019

Registered Number: 1372305

McCann-Erickson Advertising Limited

Strategic Report for the year ended 31 December 2019

The directors present their strategic report of McCann-Erickson Advertising Limited (the "Company") registered number 1372305 for the year ended 31 December 2019.

Principal activities and review of the business

The Company's principal activity during the year was as a full service advertising agency with revenues derived from both UK and overseas clients.

The Company's profit for the year was £1,851,000 (2018: profit £3,120,000). The directors consider that the result for the year is in line with expectations. The Company had net assets of £5,389,000 as at 31 December 2019 (2018: net assets of £3,538,000).

Key performance indicators

Revenue:
Revenue for the year £41,789,000 (2018: £41,991,000).

Operating Profit:
Operating profit for the year £2,756,000 (2018: operating profit of £2,849,000).

Operating Margin (%):
Ratio of operating profit to revenue in the year before amortisation 6.6% (2018: operating profit to revenue of 6.8%) (expressed as a percentage and excluding exceptional and one-off items).

Adjusted Operating Margin
The adjusted operating margin for the year is 13.8%

*Adjusted operating margin reflects the business results excluding past service pension contributions and one off expenses

Financial Reporting Standard 102 (FRS 102)

The company has complied with Financial Reporting Standard 102 (FRS 102) during the year.

Section 172(1) Statement – Directors' responsibilities to stakeholders

Stakeholders

The Directors of the Company have acted in accordance with their duties codified in law. In particular, the Directors have acted in the way in which they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, and in doing so have had regard to the stakeholders and (amongst other matters) to the matters set out in Section 172(1) of the Companies Act 2006.

The Company's ultimate parent company is The Interpublic Group of Companies, Inc. ("IPG") and the Company and all companies within the global IPG group comply with the policies and procedures issued by IPG. This ensures that the companies in the group, including the Company, promote a consistent culture globally that aligns with all key areas of the group policies and procedures, including ensuring that minimum standards and values are adhered to during the financial year in relation to supplier management and outsourcing, customer and business conduct, human resources and the environment.

The following is the Section 172 Statement of the Company and describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Having regard to the likely consequences of any decision in the long term - s172(1)(a)

The Company, as a full service advertising agency, relies on the trusting and positive engagement it has with its stakeholders to ensure it operates sustainably in the long term.

The Directors have made decisions and set strategy to ensure that the Company continues to direct its available capital and resources to areas within the business that will produce sustainable profits for shareholders.

Additionally, Throughout the year, the Directors undertake a number of stakeholder engagement activities, which provides them with a better understanding of the views and interests of stakeholders.

Having regard to the interests of the Company's employees - s172(1)(b)

The Company takes pride in its reputation for creativity, high moral and ethical standards and adherence to sound and equitable business ethics. The Directors ensure that the Company strives at all times to promote an inclusive work environment that fosters creativity, encourages collaboration and promotes growth. As such, we aim to treat all of our colleagues with fairness, dignity and respect.

For example, the Directors oversee the annual training for all employees on the content of the Employee Code of Conduct issued by IPG. The Employee Code of Conduct sets expectations for a work environment that embodies respect and dignity for all employees and provides for, amongst other things, anti-harassment and anti-discrimination policies and procedures for the receipt of anonymous complaints or concerns from employees. The Employee Code of Conduct can be found on IPG's website at https://www.interpublic.com/about/corporate-governance/.

Diversity

IPG is continually forging a culture of diversity and inclusion, including establishing the industry's first office of global diversity and inclusion, which reports directly to IPG's Chairman and CEO.

For 10 years, IPG has repeatedly received a perfect score of 100 percent on the Human Rights Campaign Corporate Equality Index (CEI), which is a measure of inclusive benefits, policies, and activities that support LGBTQ+ employees.

Consistent with the standards and values of the global IPG group, the Directors recognise the value diversity brings to a company, by building on and embracing the different talents and strengths of each employee. The Directors have fostered a collaborative environment that encourages growth and integrity.

Having regard to the need to foster the Company's business relationships with suppliers, customers and others - s172(1)(c)

Suppliers

The Directors seek to balance the benefits of maintaining strong relationships with a diverse range of key suppliers, in conjunction with ensuring the need to obtain value for money for our investors and proving a high quality of service to customers. The Company seeks out suppliers, consultants, freelancers and other business partners that share the Company's values and ethical standards and those of IPG.

The Company understands that suppliers are independent entities, but the business practices and actions of a supplier may significantly impact and/or reflect upon us, our reputation and our brands, which is one of our most important assets. Because of this, IPG and the Company expect all suppliers and their employees, agents and subcontractors (their representatives) to adhere to The IPG Supplier Code of Conduct while they are conducting business with and/or on behalf of IPG or its affiliates.

The IPG Supplier Code of Conduct can be found on IPG's website at https://www.interpublic.com/wp-content/uploads/2019/07/SPP382SupplierCodeofConduct.pdf.

Customers

The Company works with its clients and customers to ensure that the marketing communications programs designed for them are most efficiently and effectively moving their businesses forward. In order to ensure that the Company's clients are successful and that the Company maintains its competitive positioning in the marketplace, the Company always makes certain that its business is aligned with clients' changing needs and the ever-changing consumer landscape. Ours is a talent business and, to serve our clients in the best way possible, the Company must recruit and retain top talent.

Having regard the impact of the Company's operations on the community and the environment - s172(1)(d)

IPG believes that the Company and its employees can contribute to global sustainability by making smarter choices in how we conduct business. IPG is committed to operating as sustainably as possible, and in a way that is in sync with the long-term health of our environment. IPG and its global companies are dedicated to three core principles of purpose: we use our expertise as marketers to make a difference in communities locally and around the World; we take care of and invest in our people; and we ensure a fair governance structure at the Company. This policy not only serves to reduce our impact on the environment, but can also lead to cost savings, help us align with our clients' expectations, and demonstrate our responsibility to other important stakeholders by tracking our progress.

IPG has been promoted to a number of sustainability indices (S&P 500 ESG and the S&P Global 1200 index's) for the work it has carried out in promoting sustainability within the group. Additionally, IPG is committed to advancing the United Nations Sustainable Development Goals (SDGs). IPG has adopted SDG 6, access to water and sanitation, as part of its role in Common Ground, the initiative that brings together the largest holding companies in the advertising and marketing sector in support of the SDGs.

As part of the global IPG group, the Company complies with a published Sustainability and Environmental Impact Policy which can be found on IPG's website at
https://www.interpublic.com/wp-content/uploads/2019/07/SPP-121-Sustainability-Environmental-Impact.pdf.

This policy serves to establish best practices in which individual employees as well as the Company as a whole can reduce our impact on the environment.

Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct - s172(1)(e)

The Company's business is based on relationships and trust with all of its stakeholders, including customers, clients and suppliers. Maintaining an excellent reputation is important to the success of the Company and its stakeholders. To ensure the best and most honest relationships with all of our stakeholders, the Company operates with integrity and transparency in all of its interactions. The Employee Code of Conduct and the Supplier Code of Conduct form the foundation of how the Company does business on a day-to-day basis. As stated above, the Directors oversee the annual employee training on the Employee Code of Conduct.

The Directors ensure that the Company adheres to the policies and programs developed and implemented by IPG. This ensures we are accountable to all of our stakeholders—investors, clients, employees and customers. In addition to the Employee Code of Conduct and Supplier Code of Conduct, IPG also has, an Anti-Harassment and Equal Employment Policy and an Anti-Corruption Policy, both of which can be found on IPG's website at https://www.interpublic.com/about/corporate-governance/.

Having regard to the need to act fairly as between members of the Company - s172(1)(f)

The Company is ultimately 100% owned and controlled by IPG. The Company has only one class of shares, so all shareholders benefit from the same rights, as set out in the Company's articles of association and the Companies Act 2006. The Directors recognise their legal and regulatory duties, including under the EU Market Abuse Regulation, and do not take actions that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of The Interpublic Group of Companies, Inc. and are not managed separately. These risks are discussed in The Interpublic Group of Companies, Inc. annual financial statements for the year ended 31 December 2019, which does not form part of this report. Copies of The Interpublic Group of Companies, Inc. consolidated financial statements can be obtained from:

The Interpublic Group of Companies, Inc.
909 Third Avenue
New York, NY 10022, USA

Strategy and future developments

The Company's strategy is to continue to focus on revenue growth both organic and new business and to expand the breadth of services to deliver against our Clients' needs in an ever changing Industry where Client demands focus us on highly creative marketing solutions delivered in a cost effective, efficient and agile way.

We recognise our employees are our key assets and we will continue to develop an inclusive workforce focusing on nurturing and developing their skills and diversifying our workforce and talent as we grow and adjust to deliver our Client's needs and demands.

On behalf of the Board

Martin James Jackson
Director
10 September 2020

McCann-Erickson Advertising Limited

Directors' Report for the year ended 31 December 2019

The directors present their report and financial statements of McCann-Erickson Advertising Limited (the "Company") registered number 1372305 for the year ended 31 December 2019.

Future developments

Future developments, strategy and key performance indicators are discussed in the strategic report.

Dividends

The Directors did not recommend the payment of a dividend during the year (2018: £nil).

Objectives and policies

The Company's operations expose it to a variety of financial risks. These include the credit risk, the liquidity risk associated with recovering customer debt on a timely basis, and the interest rate cash flow risk. The Company has in place a risk management programme that seeks to minimise the potential adverse effects on the financial performance of the Company by monitoring customer debt levels and the related financial risks to the business.

The Company follows the standard policy and procedures (SP&P) manual provided by The Interpublic Group of Companies, Inc., which sets out specific guidelines to manage credit and liquidity risks. Interest rate cash flow risk is managed by The Interpublic Group of Companies, Inc..

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Company's finance department. The department follows the policy and procedures manual provided by The Interpublic Group of Companies, Inc. that sets out specific guidelines to manage credit and liquidity risks. Interest rate cash flow risk is managed by The Interpublic Group of Companies, Inc..

Credit risk

The Company has implemented policies to monitor customer debt levels and to ensure that excessive credit is not extended to any particular customer. This provides the business with visibility of balances and ensures that no further credit is extended in cases where this is not merited. The maximum exposure to credit risk at 31 December 2019 was mainly as follows: trade debtors £27,431,000, amounts owed by group undertakings £4,802,000, other debtors £163,000, prepayment and accrued income £8,064,000 and debtors due after more than one year £nil (2018: £15,246,000, £4,428,000, £781,000, £5,626,000, £nil respectively).

Credit given to other Group companies is also monitored and credit is extended where it is merited. Group debts are collected on the same basis as non-Group debts.

The Company also attempts to minimize credit exposure to cash investments. Cash investments are placed with high-quality financial institutions with limited exposure to any one institution.

Liquidity risk

The Company's customer profile is such that late payments and defaults may reduce the funds available for operations and planned expansions. The Company manages this risk by engaging external collection agencies where required.

Political donations

The Company made no political donations in 2019 (2018: £nil).

Branches outside the UK

The Company has no branches outside the UK.

Disabled employee note

The Company is committed to employment policies which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employee involvement

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining its future success.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

	Date of Appointment	Date of Resignation
Martin James Jackson		
Sajad Manzoor		10 January 2020
Sheryl Lynne Wilkinson (Marjoram)		
Mark Antony Young	27 May 2020	

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Events post statement of financial position

Since 31 December 2019, COVID-19 has been declared as a pandemic. The Company has determined that, in line with Section 32 of FRS102, this is a non-adjusting event after the end of the reporting period.

Directors' Report for the year ended 31 December 2019 (continued)

Statement of directors' responsibilities

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 prepared the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- 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 group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors acknowledge their responsibilities for:

- ensuring that the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006;
- preparing financial statements which give a true and fair view of the state of the affairs of the Company at 31 December 2019 and its profit or loss for the year then ended in accordance with the requirement of section 394 of the Companies Act 2006, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements so far as applicable to the Company;
- the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit exemption

Advantage has been taken of the audit exemption available for subsidiary companies conferred by section 479A of the Companies Act 2006 on the grounds:

a) that for the year ended 31 December 2019 the Company was entitled to the exemption from a statutory audit under section 479A of the Companies Act 2006 relating to subsidiary companies; and
b) that no notice has been deposited under section 476 of the Companies Act 2006 in relation to the financial statements for the financial year.

On behalf of the Board

Martin James Jackson
Director
10 September 2020

McCann-Erickson Advertising Limited

Statement of comprehensive income
For the year ended 31 December 2019

	Note	2019 £000's	Restated 2018 £000's
Turnover	5	**103,267**	66,128
Cost of sales		**(61,478)**	(24,137)
Revenue/Gross profit		**41,789**	41,991
Administrative expenses		**(39,033)**	(39,142)
Operating profit	6	**2,756**	2,849
Interest receivable and similar income	7	**23**	13
Interest payable and similar expenses	8	**(163)**	(226)
Profit before taxation		**2,616**	2,636
Tax on profit	11	**(765)**	484
Profit for the financial year		**1,851**	3,120

All operations are continuing.

Interest payable has been restated to include unwinding of discount on asset retirement obligation which was previously included in adminsitrative expenses.

McCann-Erickson Advertising Limited

Statement of financial position
As at 31 December 2019

	Note	2019 £000's	2018 £000's
Fixed assets			
Tangible assets	12	**965**	972
		965	972
Current assets			
Work in progress		**1,329**	1,464
Debtors	13	**40,692**	27,072
Cash at bank and in hand		**1,890**	-
		43,911	28,536
Creditors: amounts falling due within one year	14	**(35,812)**	(22,432)
Net current assets		**8,099**	6,104
Total assets less current liabilities		**9,064**	7,076
Creditors: amounts falling due after more than one year	15	**(115)**	(115)
Provisions for liabilities	16	**(3,560)**	(3,423)
Net assets		**5,389**	3,538
Capital and reserves			
Called up share capital	17	**1**	1
Retained earnings		**5,388**	3,537
Total equity		**5,389**	3,538

Advantage has been taken of the audit exemption available for subsidiary companies conferred by section 479A of the Companies Act 2006 on the grounds:

a) that for the year ended 31 December 2019 the Company was entitled to the exemption from a statutory audit under section 479A of the Companies Act 2006 relating to subsidiary companies; and

b) that no notice has been deposited under section 476 of the Companies Act 2006 in relation to the financial statements for the financial year.

The directors acknowledge their responsibilities for:

a) ensuring that the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and

b) preparing financial statements which give a true and fair view of the state of the affairs of the Company at 31 December 2019 and of its profit or loss for the year then ended in accordance with the requirement of section 394 of the Companies Act 2006, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements so far as applicable to the Company.

The notes on pages 13 to 32 are an integral part of these financial statements.

The financial statements on pages 10 to 32 were authorised for issue by the board of directors on 10 September 2020 and were signed on its behalf.

Martin James Jackson
Director
McCann-Erickson Advertising Limited
Registered No. 1372305

McCann-Erickson Advertising Limited

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000's	Retained earnings £000's	Total Equity £000's
At 1 January 2018	1	417	418
Profit for the financial year	-	3,120	3,120
Total comprehensive income for the year	-	3,120	3,120
At 31 December 2018	**1**	**3,537**	**3,538**

	Called up share capital £000's	Retained earnings £000's	Total Equity £000's
At 1 January 2019	1	3,537	3,538
Profit for the financial year	-	1,851	1,851
Total comprehensive income for the year	-	1,851	1,851
At 31 December 2019	**1**	**5,388**	**5,389**

Notes to the financial statements for the year ended 31 December 2019

1 General information

The Company's principal activity during the year was as a full service advertising agency with revenues derived from both UK and overseas clients.

The Company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is 135 Bishopsgate, London, UK, EC2M 3TP.

2 Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements.

a) Basis of preparation

These financial statements are prepared under the historical cost convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b) Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

c) Exemptions for qualifying entities under FRS 102

As a qualifying entity, the Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its intermediate parent company, IPG Holdings (UK) Limited, includes the Company's cash flows in its own consolidated financial statements.

The Company has also taken advantage of the exemption, under FRS 102 paragraph 1.12(c), to the disclosure requirements of FRS 102 section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A, and FRS 102 section 12 Other Financial Instrument Issues, paragraphs 12.26 to 12.29A, on the basis that it is a qualifying entity and the consolidated accounts of IPG Holdings (UK) Limited include the equivalent disclosures.

d) Consolidated financial statements

The Company is a wholly owned subsidiary of McCann-Erickson Network Limited and of its ultimate parent, The Interpublic Group of Companies, Inc. and its results are included in the consolidated financial statements of The Interpublic Group of Companies, Inc. which are publicly available. The directors have therefore concluded that the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. These financial statements are the Company's separate financial statements.

3 Summary of significant accounting policies (continued)

e) Revenue recognition

The Company's revenues are primarily derived from the planning and execution of multi-channel advertising, marketing and communications programs in the United Kingdom and the rest of Europe. Revenues are directly dependent upon the advertising, marketing and corporate communications requirements of existing clients and the Company's ability to win new clients. Revenue is typically lowest in the first quarter and highest in the fourth quarter. Most client contracts are individually negotiated and, accordingly, the terms of client engagements and the bases on which the Company earn commissions and fees vary significantly. As is customary in the industry, contracts generally provide for termination by either party on relatively short notice, usually 90 days.

Client contracts are complex arrangements that may include provisions for incentive compensation and vendor rebates and credits. The Company's largest clients are multinational entities and, as such, the Company provide services to these clients out of multiple offices and across many of our agencies within the Group or with related companies. In arranging for such services, it is possible that the Company enters into global, regional and local agreements. Agreements of this nature are reviewed by The Interpublic Group of Companies, Inc. Corporate legal counsel to determine the governing terms to be followed by the offices and agencies involved.

Revenue for our services is recognised when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) services have been performed. Depending on the terms of a client contract, fees for services performed can be recognised in three principal ways: proportional performance (input or output), straight-line (or monthly basis) or completed contract.

- *Fees*

Fees are generally recognised as earned based on the proportional performance input method of revenue recognition in situations where our fee is linked to the actual hours incurred to service the client as detailed in a contractual staffing plan, where the fee is earned on a per hour basis or where actual hours incurred are provided to the client on a periodic basis (whether or not the fee is reconcilable), with the amount of revenue recognised in these situations limited to the amount realisable under the client contract. We believe an input-based measure (the 'hour') is appropriate in situations where the client arrangement essentially functions as a time and out-of-pocket expense contract and the client receives the benefit of the services provided throughout the contract term.

Fees are recognised on a straight-line or monthly basis when service is provided essentially on a pro-rata basis and the terms of the contract support monthly basis accounting.

Certain fees (such as for major marketing events) are deferred until contract completion if the final act is so significant in relation to the service transaction taken as a whole or if any of the terms of the contract do not otherwise qualify for proportional performance or monthly basis recognition. Fees may also be deferred and recognised upon delivery of a project if the terms of the client contract identify individual discrete projects.

Depending on the terms of the client contract, revenue is derived from diverse arrangements involving fees for services performed, commissions, performance incentive provisions and combinations of the three. Commissions are generally earned on the date of the broadcast or publication. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to either qualitative or quantitative goals, or both. Performance incentives are recognised as revenue for quantitative targets when the targets have been achieved and for qualitative targets when confirmation of the incentive is received from the client.

The majority of our revenue is recorded as the net amount of our gross billings less pass-through expenses charged to a client which are included as costs of sales. In most cases, the amount that is billed to clients significantly exceeds the amount of revenue that is earned and reflected in our financial statements because of various pass-through expenses, such as production and media costs. We assess whether our agency or the third-party supplier is the primary obligor, and we evaluate the terms of our client agreements as part of this assessment. In addition, we give appropriate consideration to other key indicators such as latitude in establishing price, discretion in supplier selection and credit risk to the supplier. Because we operate broadly as an advertising agency, based on our primary lines of business and given the industry practice to generally record revenue on a net versus gross basis, we believe that there must be strong evidence in place to overcome the presumption of net revenue accounting. Accordingly, we generally record revenue net of pass-through charges as we believe the key indicators of the business suggest we generally act as an agent on behalf of our clients in our primary lines of business. In those businesses where the key indicators suggest we act as a principal (primarily sales promotion and event, sports and entertainment marketing), we record the gross amount billed to the client as revenue and the related incremental direct costs incurred as office and general expenses. In general, we also report revenue net of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions.

As we provide services as part of our core operations, we generally incur incidental expenses, which, in practice, are commonly referred to as "out-of-pocket" expenses. These expenses often include expenses related to airfare, mileage, hotel stays, out-of-town meals and telecommunication charges. We record the reimbursements received for such incidental expenses as revenue with a corresponding offset to office and general expense.

We receive credits from our vendors and media outlets for transactions entered into on behalf of our clients that, based on the terms of our contracts and local law, are either remitted to our clients or retained by us. If amounts are to be passed through to clients, they are recorded as liabilities as a provision until settlement or, if retained by us, are recorded as revenue when earned.

3 Summary of significant accounting policies (continued)

f) Interest income

Interest income is recognised using the effective interest rate method.

g) Dividend income

Dividend income is recognised when the right to receive payment is established.

h) Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

- **Short term benefits**

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in *which the service is received.*

- **Pension costs**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from the Company in an independently administered fund. The pension cost charge disclosed in note 21 represents contributions payable by the Company to the fund.

Contributions payable in respect of employees' personal pension plans are expensed in the statement of comprehensive income as they are incurred.

The Company is a member of the Interpublic Pension Plan, a defined benefit scheme. The Company has adopted the reporting requirements of FRS 102 and is unable to identify its share of the pension scheme assets and liabilities and also its share of the defined benefit costs of the Group scheme. The Company accounts for its contributions as if they were to a defined contribution pension scheme. Contributions are charged to the statement of comprehensive income in the year to which they relate.

Under FRS 102, the deficit of the defined benefit plan should be recognised in the financial statements of the group entity that is legally sponsoring employer for the plan. Accordingly, the deficit is reported in the financial statements of Interpublic Limited, the sponsoring employer of the Interpublic Pension Plan.

- **Annual bonus plan**

The Company operates an annual bonus plan for some employees. An expense is recognised in the statement of comprehensive income when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

i) Foreign currencies

The Company's functional and presentation currency is pound sterling. Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising from the revaluation of foreign currency assets and liabilities are taken to the statement of comprehensive income during the year to which they relate.

j) Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

3 Summary of significant accounting policies (continued)

k) Leases

Rentals applicable to operating leases, where substantially all of the benefits and risks of membership remain with the lessor, are charged to the statement of comprehensive income on a straight line basis over the term of the lease

l) Lease incentives

Incentives received to enter into an operating lease are credited to the statement of comprehensive income, to reduce the lease expense, on a straight-line basis over the period of the lease.

m) Exceptional items

Exceptional items comprise those that are by their nature, large unusual non-recurring and are shown separately in the statement of comprehensive income.

n) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current and deferred taxation assets and liabilities are not discounted.

Corporation tax payable is provided on taxable profits and is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the statement of financial position date. Timing differences are differences between a company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates and laws that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is measured on a non-discounted basis in line with FRS 102.

3 Summary of significant accounting policies (continued)

o) Tangible assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of the assets evenly over their expected useful lives as follows:

Freehold land and buildings	Lesser of 10 years or the remaining life of the lease
Equipment, fixtures & fittings	3-10 years
Plant & machinery	3-10 years
Asset retirement obligation	Lesser of 10 years or the remaining life of the lease
Long leasehold and leasehold improvements	Lesser of 10 years or the remaining life of the lease
Computer hardware and software	3-4 years

The assets' useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs, maintenance and minor inspection costs are expensed as incurred.
The fair value of estimated asset retirement obligations is recognised in the statement of financial position when identified and a reasonable estimate of fair value can be made. The fair value is determined based on the net present value of the estimated costs which include those legal obligations where the Company will be required to return the properties to their original condition. The asset retirement costs, equal to the estimated fair value of the asset retirement obligation is capitalised as part of the cost of the related long lived asset. Asset retirement costs are amortised over the life of the lease.

Amortisation of asset retirement costs is included in depreciation of fixed assets. Increases in the provision of asset retirement obligation resulting from the passage of time are recorded as interest expense in the statement of comprehensive income. Actual expenditures incurred are charged against the accumulated provision.

p) Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

q) Work in progress

Work in progress comprises external charges for goods and services incurred on behalf of clients which have still to be invoiced to clients. Work in progress is stated at the lower of cost or net realisable value. The Company assesses annually at the reporting date if any impairment is required and recognises any impairment loss to the statement of comprehensive income.

3 Summary of significant accounting policies (continued)

r) Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including debtors and cash at bank and in hand balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Other financial assets, including equity investments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including creditors and other payables, loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as creditors: amounts falling due over one year. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

s) Cash and cash equivalents

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

t) Deferred income

Deferred income represents revenue invoiced in advance of services that have not yet been rendered to clients.

3 Summary of significant accounting policies (continued)

u) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; if it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision is not made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

v) Called up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

w) Distributions to equity holders

Dividends and other distributions to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

x) Related party disclosures

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

Under FRS 102 Advantage has been taken of the exemption for Related Party Disclosures not to disclose transactions with companies that are part of the IPG Group. The address at which the consolidated financial statements of The Interpublic Group of Companies, Inc. are publicly available is shown in note 24.

y) Incentive compensation plans

Compensation costs related to share-based transactions, including employee stock options, are recognised in the financial statements based on fair value. Stock-based compensation expense is generally recognised over the requisite service period based on the estimated grant-date fair value. Cash settled share based payments are measured at fair value at the statement of financial position date and are included in creditors.

The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of comprehensive income, with a corresponding entry in creditors.

Cash awards are generally granted on an annual basis and have a service period vesting condition and generally vest in three years. Cash awards do not fall within the scope of share based payments as they are not paid in equity and the value of the award is not correlated with The Interpublic Group of Companies, Inc. share price. The present value of the amount expected to vest for cash awards and performance cash awards over the vesting period is amortised using the straight-line method in the statement of comprehensive income.

z) Netting off policy

Balances with other companies in The Interpublic Group of Companies, Inc. are stated gross, unless all of the following conditions are met:

(i) The Company and the counterparty owe each other determinable monetary amounts, denominated either in the same currency, or in different but free convertible currencies;

(ii) The Company has the ability to insist on a net settlement; and

(iii) The Company's ability to insist on a net settlement is assured beyond doubt. For this to be the case it is necessary that the debit balance mature no later than the credit balance. It is also necessary that the Company's ability to insist on a net settlement would survive the insolvency of the counterparty.

4 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the entity's accounting policies

Group defined benefit pension scheme

The Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit costs, defined benefit plan liabilities and plan assets and therefore accounts for the scheme as a defined contribution scheme. Please refer to note 21.

(b) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible assets (note 3o)

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property plant and equipment, and note 3o for the useful economic lives for each class of assets.

(ii) Impairment of trade and other debtors (note 13)

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 13 for the net carrying amount of the debtors and associated impairment provision.

5 Turnover

	2019	2018
	£000's	£000's
Turnover by origin		
United Kingdom	**40,327**	37,668
Rest of Europe	**22,786**	24,725
North America	**620**	679
Rest of World	**39,534**	3,056
	103,267	66,128

The analysis above is by geographical origin, being the location of the Company, which is performing the service for the customer, who may be located in a different location.

6 Operating profit

The following amounts have been charged/(credited) in arriving at the operating profit:

	2019	2018
	£000's	£000's
Employee costs (note 9)	**28,959**	28,769
Depreciation		
- Tangible fixed assets	**516**	604
Bad debt - provision increase	**11**	67
Exchange (gain)/loss	**(216)**	53
Operating lease rentals		
- Office space	**4,440**	4,975
- Other	**72**	55
Rental income	**(4,632)**	(4,601)

7 Interest receivable and similar income

	2019	2018
	£000's	£000's
Interest receivable on bank accounts	**23**	13
	23	13

8 Interest payable and similar expenses

	2019	Restated 2018
	£000's	£000's
Interest payable on bank overdrafts	**44**	134
Unwinding of discount	**119**	92
	163	226

The unwinding of discount has been restated to align with underlying records.

9 Employee costs

	2019 £000's	2018 £000's
Wages and salaries (including directors)	**22,762**	22,435
Social security costs	**2,229**	2,251
Pension costs (note 21)		
- Defined contribution	**1,138**	978
- Defined benefit	**2,374**	2,596
Severance expense	**136**	284
Share based payment costs (note 20)	**221**	225
Miscellaneous, non-share based incentives and other costs	**99**	-
Employee costs	**28,959**	28,769

The Company's employees are principally located in the United Kingdom.

The average monthly number of people employed (including directors) by the Company during the year is set out below:

	2019	2018
United Kingdom	**292**	285
Average monthly number employed	**292**	285

Key management compensation

The compensation paid or payable to key management (including directors) for employee services is shown below:

	2019 £000's	2018 £000's
Wages and salaries	**1,826**	1,915
Social security costs	**210**	284
Pension costs (note 21)		
- Defined contribution	**80**	88
Share based payments costs (note 20)	**101**	238
Key management compensation	**2,217**	2,525

Notes to the financial statements for the year ended 31 December 2019 (continued)

10 Directors' emoluments

The directors are remunerated by the Company in respect of their services to the Company.

	2019 £000's	2018 £000's
Aggregate emoluments, including benefits in kind	**499**	226
Defined benefit scheme - company contributions	**41**	18
Share option expense	**-**	8
	540	252

Highest paid director

	2019 £000's	2018 £000's
Aggregate emoluments, including benefits in kind	**265**	226
Defined benefit scheme - company contributions	**22**	18
Share option expense	**-**	8
	287	252

11 Tax on profit

	2019 £000's	2018 £000's
Current taxation		
UK corporation taxation	**136**	-
Foreign taxation - withholding tax	-	2
	136	2
Adjustments in respect of prior years		
- UK corporation taxation	**39**	110
	39	110
Total current taxation	**175**	112
Deferred taxation		
Origination & reversal of timing differences	**590**	(384)
Adjustments in respect of prior years	-	(252)
Effect of change in the tax rate	-	40
Total deferred taxation	**590**	(596)
Tax on profit	**765**	(484)

Factors affecting the tax charge for the year

The tax assessed for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The difference is explained below:

	2019 £000's	2018 £000's
Profit before taxation	**2,616**	2,636
Profit before taxation at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**497**	501
Effects of:		
Expenses not deductible for taxation purposes	**26**	29
Foreign taxation	-	2
Adjustments in respect of prior years	**39**	(142)
Unrecognised deferred tax	**244**	(914)
Effect of change in tax rate	**(41)**	40
Total tax for the year	**765**	(484)

A reduction in the rate of UK corporation tax from 19% to 17% from 1 April 2020 has been substantively enacted. However, this was subsequently reversed in March 2020.

At 31 December 2019 there were unused trading losses and non-trading deficits of £992,000 (2018: £2,525,000) that are available indefinitely for offset against the Company's future taxable profits, and capital losses of £nil (2018: £nil) that are available for offset indefinitely against the Company's future capital gains.

12 Tangible assets

	Long leasehold & leasehold improvements £000's	Computer equipment £000's	Equipment, fixtures & fittings £000's	Asset retirement obligation £000's	Total £000's
At 31 December 2018					
Cost	4,934	3,574	4,058	790	13,356
Accumulated depreciation	(4,685)	(3,026)	(3,883)	(790)	(12,384)
Net book value	**249**	**548**	**175**	**-**	**972**
Cost					
1 January 2019	4,934	3,574	4,058	790	13,356
Additions	-	550	4	-	554
Other adjustments*	-	2	-	-	2
31 December 2019	**4,934**	**4,126**	**4,062**	**790**	**13,912**
Accumulated depreciation					
1 January 2019	(4,685)	(3,026)	(3,883)	(790)	(12,384)
Charge for the year	(226)	(248)	(42)	-	(516)
Other adjustments*	(22)	(22)	(3)	-	(47)
31 December 2019	**(4,933)**	**(3,296)**	**(3,928)**	**(790)**	**(12,947)**
Net book value					
31 December 2019	**1**	**830**	**134**	**-**	**965**
Net book value					
31 December 2018	249	548	175	-	972

An adjustment was made to align brought forward accumulated depreciation with underlying records.

13 Debtors

Debtors: amounts falling due within one year

	2019	2018
	£000's	£000's
Trade debtors	**27,431**	15,246
Amounts owed by group undertakings	**4,802**	4,428
Other debtors	**163**	781
Corporation tax	**32**	201
Prepayments and accrued income	**8,064**	5,626
Deferred taxation (see below)	**200**	790
	40,692	27,072

All amounts owed by Group undertakings are unsecured and repayable on demand.

Deferred taxation

	2019	2018
	£000's	£000's
Accelerated capital allowances	**109**	235
Trading losses and non-trading deficits	**54**	429
Other short term timing differences	**37**	126
Total deferred tax asset	**200**	790

The movement in the deferred taxation balance can be summarised as follows:

	£000's
At 1 January 2019	790
Charged to statement of comprehensive income	(590)
At 31 December 2019	**200**

The amount of the net reversal of deferred tax expected to occur in 2020 is £54,000.

This primarily relates to the reversal of timing differences on tangible fixed assets through depreciation and capital allowances and the use of tax losses carried forward.

14 Creditors: amounts falling due within one year

	2019 £000's	2018 £000's
Bank loans and overdrafts	-	2,491
Trade creditors	**1,282**	1,677
Amounts owed to group undertakings	**17,717**	7,951
Other creditors including taxation and social security	**1,063**	4,859
Incentive compensation plans	**32**	-
Accruals and deferred income	**15,718**	5,454
	35,812	22,432

Amounts owed to group undertakings are unsecured, repayable on demand and do not accrue interest.

15 Creditors: amounts falling due after more than one year

	2019 £000's	2018 £000's
Amounts owed to group undertakings	**115**	115
	115	115

16 Provisions for liabilities

	Credits, discounts and rebates £000's	Asset retirement obligations £000's	Other provisions £000's	Restated Total £000's
At 1 January 2019	1,798	1,545	80	3,423
Charge to statement of comprehensive income	(103)	-	-	(103)
Unwinding of discount	-	115	-	115
Released to statement of comprehensive income	-	-	(80)	(80)
Increase/(decrease) in provision	348	(8)	-	340
Payments	(135)	-	-	(135)
At 31 December 2019	**1,908**	**1,652**	**-**	**3,560**

Credits, discounts and other rebates

In the normal course of business the Company receives rebates, discounts, and other credits from vendors for the procurement of goods and services that the Company commission on behalf of third party clients. Following an extensive review in 2004, the Group established that in some instances, the accounting for these amounts was inconsistent with the underlying contractual requirements and a provision was established. In the current year, the Group has reviewed the arrangement to see whether criteria for recognition in the statement of comprehensive income have been met. In instances where those criteria have been met, corresponding amounts have been recognised in the statement of comprehensive income. In addition, as the statute of limitations period of 6 years has passed in relation to certain credits, these amounts have been released in the current year.

Asset retirement obligations

The Company has a provision for liabilities relating to dilapidations on properties leased by the Company.

McCann-Erickson Advertising Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

17 Called up share capital

	2019 Number (000's)	2018 Number (000's)	**2019 £000's**	2018 £000's
Allotted and fully paid:				
A ordinary shares of £1.00 each	**1**	1	**1**	1

18 Capital and other commitments

	2019 £000's	2018 £000's
Capital commitments		
At 31 December, the Company had no capital commitments or future contracts (2018: none)		
Operating lease commitment		
As at 31 December, the Company had the following total future minimum lease payments commitments under non-cancellable operating leases for each of the following periods:		
Payments due:		
- Not later than one year	**3,342**	4,975
- Later than one year and not later than five years	-	-
- Later than five years	-	-
Total minimum lease commitments	**3,342**	4,975

Operating lease income

As at 31 December, the Company had the following total future minimum lease income under non-cancellable operating leases for each of the following periods:

	2019 £000's	2018 £000's
Income due:		
Buildings		
- Not later than one year	**(1,891)**	(1,891)
Total buildings lease income	**(1,891)**	(1,891)

19 Contingent liabilities

The Company is not party to any commitments or guarantees including composite cross guarantees between banks and fellow subsidiaries except for The Interpublic Group of Companies, Inc. pooling arrangements with Lloyds Banking Group plc. The interest rate is linked to a variable base rate and borrowings are secured by parent company guarantees.

20 Share based payments

Long term incentive plans

The Interpublic Group of Companies, Inc. issues stock and cash based incentive awards to employees under a plan established by The Interpublic Group of Companies, Inc., along with other companies in the Interpublic group, participates in The Interpublic Group of Companies, Inc. long term incentive plans. Refer to The Interpublic Group of Companies, Inc. 2019 Form 10-K for further disclosures relating to their long term incentive plans.

Effect of share-based payment transactions on company's results and the financial position

	2019	2018
	£000's	£000's
Total expense recognised for equity-settled share based transactions	**221**	225
Total expense recognised for share based transactions	**221**	225
Closing liability/other reserves for equity-settled share based transactions	**93**	102

Equity Settled Restricted Stock Units

Awards to be settled in shares are granted to certain key employees and are subject to certain restrictions and vesting requirements, as determined by The Interpublic Group of Companies, Inc.'s Compensation Committee. The vesting period is generally three years. The fair value of the restricted stock awards is based on The Interpublic Group of Companies, Inc.'s share price on the date the award is granted. No monetary consideration is paid by a recipient for a stock-settled award and the fair value of the shares determined on the grant date is amortized over the vesting period.

There were no equity settled restricted stock units awarded to McCann-Erickson Advertising Limited's employees prior to 2007.

The Interpublic Group of Companies, Inc. grants both time based and performance based restricted stock units to be settled in shares.

Performance-based awards have been granted subject to certain restrictions and vesting requirements as determined by The Interpublic Group of Companies, Inc.'s Compensation Committee. Performance-based awards are a form of stock-based compensation in which the number shares ultimately received by the participant depends on the Company and/or individual performance against specific performance targets.

The awards generally vest over a three-year period subject to the participant's continuing employment as well as the achievement of certain performance objectives. The final number of units and therefore shares that could ultimately be received by a participant ranges from 0% to 300% of the target amount of units originally granted. Stock-based compensation expense is amortised for the estimated number of performance-based awards that are expected to vest over the vesting period using the fair value of the shares at the end of the period.

20 Share based payments (continued)

Share Settled Performance Related Restricted Stock Units

Movements in the number of awards outstanding and their related weighted average exercise prices are as follows:

	2019 No. of units	**2019 Weighted average fair value (£)**	2018 No. of units	2018 Weighted average fair value (£)
Outstanding as at 1 January	**35,453**	**16.32**	42,521	14.92
Granted during the year	**9,095**	**17.28**	7,049	17.16
Vested during the year	**(14,688)**	**17.28**	(14,117)	17.32
Outstanding at 31 December	**29,860**	**17.49**	35,453	16.32

Compensation expense in connection with the restricted stock awards was £170,036 in 2019 (2018: expense £228,040). The Interpublic Group of Companies, Inc. is responsible for issuing the shares upon settlement of the awards and therefore holds the equity balance for the equity settled awards.

Total accrued liability in relation to unvested awards as at 31 December 2019 is £nil (2018: £nil).

Share Settled Time Based Restricted Stock Units

Movements in the number of awards outstanding and their related weighted average exercise prices are as follows:

	2019 No. of units	**2019 Weighted average fair value (£)**	2018 No. of units	2018 Weighted average fair value (£)
Outstanding as at 1 January	**7,049**	**16.32**	-	-
Granted during the year	**5,456**	**17.28**	7,049	17.16
Transferred (to)/from a Group company	**(3,172)**	**16.14**	-	-
Outstanding at 31 December	**9,333**	**17.49**	7,049	16.32

Compensation expense in connection with the restricted stock awards was £51,310 in 2019 (2018: expense £36,815). The Interpublic Group of Companies, Inc. is responsible for issuing the shares upon settlement of the awards and therefore holds the equity balance for the equity settled awards.

21 Pensions

Defined contributions scheme

The Company participates in a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in an independently administered fund. The pension cost represents contributions payable by the Company to the fund and amounted to £1,137,747 (2018: £978,080). At 31 December 2019, £111,662 remained unpaid and accrued (2018: £90,128).

Defined Benefit Scheme

During the year, the Company, along with other companies in The Interpublic Group of Companies, Inc., also participated in The Interpublic Pension Plan ("the Plan"), which is a defined benefit plan providing benefits based on members' pensionable service and pensionable earnings. McCann-Erickson Advertising Limited, along with other companies in the Group, is unable to identify its share of the underlying assets and liabilities in the Plan and so accounts for its participation in the Plan as a defined contribution plan, with contributions payable being charged to the profit & loss account in the period to which they relate, in accordance with FRS 102.

The latest actuarial valuation of the Plan for funding purposes was carried out as at 31 March 2018 by a qualified actuary appointed by the Trustee of the Plan. The key financial assumptions used in the valuation were as follows:

Discount rate: 2.10% a year
Rate of Price Inflation (CPI): 2.30% a year
Rate of Price Inflation (RPI): 3.30% a year
Rate of pay increases: n/a
Rate of pension increases: 3.10% a year (benefits accrued up to 30 June 2007)
Rate of pension increases: 2.10% a year (benefits accrued from 1 July 2007)

Towards the cost of ongoing benefit accrual, the participating employers paid contributions of 19.0% of active members' pensionable earnings for the period from 12 June 2013 to 31 March 2016 increasing to 27.9% of active members' pensionable earnings from 1 April 2016 to 30 September 2016. The balance of this cost was met by the active members who each paid contributions at the rate of 10.2% of pensionable earnings. Effective 1 October 2016, the Plan was closed to future accrual and the salary link for both active and linked members was broken. As a consequence, contributions from both employers and active members, relating to the cost of ongoing accrual, ceased from this date.

As at 31 March 2018, the actuary calculated the funding deficit to be £91.4 million. In respect of this shortfall in funding, in accordance with the Recovery Plans in force over the period and with the Schedules of Contributions in force over the period, the employers are to contribute amounts to the Plan such that the cumulative amount totalled at least £483,333 per month from 1 April 2016 to 30 September 2019 and £541,667 per month from 1 October 2019 until 31 October 2026. In addition, further contributions of £1,968,000 and £1,500,000 were paid to the Plan during 2016.

McCann-Erickson Advertising Limited contributed £559,106 per month from 1 January 2019 to 30 September 2019, and £1,496,682 per month from 1 October 2019 and 31 December 2019.

The employers also make contributions to the Plan in respect of administration, running costs and statutory levies. The amount of such contributions to the Plan over the year by McCann-Erickson Advertising Limited, was £335,463

The cost of contributions to the Plan by the Company amounted to £2,391,250 during the year (2018: £2,391,250).

22 Events after the reporting period

Since 31 December 2019, COVID-19 has been declared as a pandemic. The Company has determined that, in line with Section 32 of FRS102, this is a non-adjusting event after the end of the reporting period. Accordingly, the financial position and results for the year ending 31 December 2019 have not been adjusted to reflect the impact of the pandemic. The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

23 Company information

The Company is registered in England and Wales and its registered office is at 135 Bishopsgate, London, UK, EC2M 3TP.

24 Ultimate parent undertaking and controlling party

The immediate parent undertaking is McCann-Erickson Network Limited, a company registered in England and Wales. Copies of its financial statements are available Bonis Hall, Prestbury, Macclesfield, SK10 4EF.

The ultimate parent undertaking and controlling party is The Interpublic Group of Companies, Inc., a company incorporated in the United States.

The Interpublic Group of Companies, Inc. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2019, and the smallest group of undertakings to consolidate these financial statements at 31 December 2019 is IPG Holdings (UK) Limited.

The consolidated financial statements for The Interpublic Group of Companies, Inc. can be obtained from 909 Third Avenue, New York, NY 10022, USA.

The consolidated financial statements for IPG Holdings (UK) Limited can be obtained from 3 Grosvenor Gardens, London, United Kingdom, SW1W 0BD.