

Registration number: 00414220

PA Consulting Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

Ernst & Young LLP
One Cambridge Business Park
Cowley Road
Cambridge
CB4 0WZ



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Company Information

Directors	C Barrett R Cameron K Janjuah A Middleton D Vickerstaffe
Company secretary	J Greenfield
Registered office	10 Bressenden Place London SW1E 5DN
Bankers	HSBC Bank plc West End CBC 69 Pall Mall London SW1Y 5EY
Auditors	Ernst & Young LLP One Cambridge Business Park Cowley Road Cambridge CB4 0WZ

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activity

The principal activity of the Company is the provision of a range of consultancy services to government and industry. The Company is based in the United Kingdom with branches in the Republic of Ireland, Spain, Switzerland and Dubai. The Company's consultancy services are delivered by employees of the Company and employees of PA Holdings Limited, a fellow group company.

Review of the business

Turnover increased by 1% to £318.5 million (2016: £315.2 million), with confidence beginning to return to the markets during 2017 following a period of uncertainty through 2016 leading up to the UK's EU referendum and by the shock of its unexpected outcome afterwards. Strong sales in the second half of 2017 ensured the year finished well with increasing utilisation rates delivered and a solid stock of work for the start of 2018. Continuing control of costs resulted in the Company's profit for the year of £30.6 million (2016: £16.5 million); The 2016 results were impacted by an onerous lease provision of £10.2 million required on the existing London office, as the Company moves its offices.

The directors consider the result for the year and the financial position at the end of the year to be in line with expectations.

Principal risks and uncertainties

The Company is a member of the PA Consulting Group of companies ('the Group'). Business performance and principal risks and uncertainties of the Company are integrated with the performance and principal risks of the Group, and are not managed separately. For this reason, the Company's directors believe that further analysis is not necessary for an understanding of the development, performance, position or risks of the business. A detailed review of the business of the Group and a description of the risks and uncertainties facing it can be found in the PA Consulting Group Limited report and accounts for 2017.

Approved by the Board on 01 Aug 18 and signed on its behalf by:



R Cameron
Director

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors of the Company

The directors who held office during the year ended 31 December 2017 and up to the date of signing the financial statements were as follows:

C Barrett

R Cameron (appointed 19 December 2017)

M Gordon (resigned 19 December 2017)

K Janjua

A Middleton

D Vickerstaffe

Dividends

An interim dividend of £70 million was paid in the year (2016: nil). The directors do not recommend the payment of a final dividend (2016: nil).

Employee involvement

We encourage people across PA to take active responsibility for improving our performance whether through enhancing working practices or drawing attention to behaviours or other issues which give them concern. To encourage feedback and suggestions, PA has introduced procedures and mechanisms to create a culture that allows people to speak up with confidence and in good faith in the expectation of being heard. PA regularly conducts employee surveys and provides all employees with access to a 'Give PA your suggestions' facility. Employees and third parties, including clients and suppliers, can also raise concerns through a confidential and anonymous whistle-blowing helpline that is operated externally.

Supporting colleagues with disabilities

PA is committed to creating a work environment that supports and inspires all individuals, and we give full consideration to applications from people with disabilities. Arrangements are made for PA employees who have become disabled in their time at PA to be supported in their current roles or to be trained for other positions within our organisation. Disabled persons are provided with equal access to learning, career development and promotion that are available to all employees within the limitations of their aptitudes and abilities.

Future developments

In 2018 the Company will continue to provide a range of consultancy services to government and industry.

Research and development

PA is committed to new knowledge creation and innovation through the provision of research and development for clients and through investing in projects internally. The Group will continue its policy of investment in research and development in order to retain a competitive position in the market.

Branches outside the United Kingdom

The Company has branches in Spain, Switzerland, Dubai and Ireland.

Directors' Report for the Year Ended 31 December 2017

Going concern

Having considered the financial position, trading performance and forecast cash flows, along with the principal risks of the business, of the Company and wider PA Group, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparing of the financial statements.

Directors' liabilities

In accordance with the Articles of Association, the sole shareholder has provided to all the directors an indemnity (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. The Group has taken out an insurance policy in respect of those liabilities for which directors may not be indemnified. Neither the indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 01. August 18 and signed on its behalf by:



R Cameron
Director

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the 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, specifically FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland', 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 confirm that they have complied with the above requirements in preparing the financial statements.

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.

Independent Auditor's Report to the members of PA Consulting Services Limited

Opinion

We have audited the financial statements of PA Consulting Services Limited for the year ended 31 December 2017, which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes 1 to 27, 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 FRS 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 2017 and of its profit 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 below. 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the members of PA Consulting Services Limited

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 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 or 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), 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.

Independent Auditor's Report to the members of PA Consulting Services Limited

Ernst & Young LLP

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Nick Gomer (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge

Date: **02 AUG 2018**
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Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Turnover	2	318,518	315,195
Cost of sales		<u>(246,656)</u>	<u>(248,170)</u>
Gross profit		71,862	67,025
Administrative expenses		(34,018)	(35,605)
Other operating income	3	2,909	2,798
Exceptional costs	4	<u>(751)</u>	<u>(11,603)</u>
Operating profit	5	40,002	22,615
Other interest receivable and similar income	6	41	284
Interest payable and similar charges	7	<u>(2,099)</u>	<u>(1,486)</u>
Profit before tax		37,944	21,413
Taxation	11	<u>(7,328)</u>	<u>(4,901)</u>
Profit for the financial year		<u><u>30,616</u></u>	<u><u>16,512</u></u>

The above results were derived from continuing operations.

The notes on pages 13 to 33 form an integral part of these financial statements.

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Profit for the year		<u>30,616</u>	<u>16,512</u>
Exchange differences on retranslation of net assets and results of overseas branches		624	(575)
Actuarial gain recognised on defined benefit pension scheme	21	1	345
Movement on deferred tax relating to actuarial gain on pensions	11, 21	<u>-</u>	<u>(58)</u>
		<u>625</u>	<u>(288)</u>
Total comprehensive income for the year		<u><u>31,241</u></u>	<u><u>16,224</u></u>

The notes on pages 13 to 33 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Fixed assets			
Intangible assets	12	1,811	1,542
Tangible assets	13	24,643	18,258
Investments	14	1	1
		<u>26,455</u>	<u>19,801</u>
Current assets			
Debtors: amounts falling due within one year	15	165,229	205,447
Debtors: amounts falling due after more than one year	16	7,114	5,913
Cash at bank and in hand	17	1,273	3,885
		173,616	215,245
Creditors: Amounts falling due within one year	18	<u>(76,558)</u>	<u>(66,882)</u>
Net current assets		<u>97,058</u>	<u>148,363</u>
Total assets less current liabilities		123,513	168,164
Creditors: Amounts falling due after more than one year	19	(24,815)	(25,624)
Provisions for liabilities	20	<u>(6,097)</u>	<u>(11,180)</u>
Net assets		<u>92,601</u>	<u>131,360</u>
Capital and reserves			
Called up share capital	22	200	200
Profit and loss account		<u>92,401</u>	<u>131,160</u>
Total equity		<u>92,601</u>	<u>131,360</u>

The financial statements of the Company were authorised for issue by the Board of Directors on 01 Aug 18 and signed on its behalf by:



R Cameron
Director

PA Consulting Services Limited
Registration number: 00414220

Statement of Changes in Equity for the Year Ended 31 December 2017

	Note	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2017		200	131,160	131,360
Profit for the year		-	30,616	30,616
Exchange differences on retranslation of net assets and results of overseas branches		-	624	624
Actuarial gain recognised on defined benefit pension scheme	21	-	1	1
Total comprehensive income		-	31,241	31,241
Dividends		-	(70,000)	(70,000)
At 31 December 2017		200	92,401	92,601

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	200	114,936	115,136
Profit for the year	-	16,512	16,512
Exchange differences on retranslation of net assets and results of overseas branches	-	(575)	(575)
Actuarial (loss)/gain recognised on defined benefit pension arrangements	-	345	345
Movement on deferred tax relating to actuarial (loss)/gain on pensions	-	(58)	(58)
Total comprehensive income	-	16,224	16,224
At 31 December 2016	200	131,160	131,360

Notes to the Financial Statements for the Year Ended 31 December 2017

1 Accounting policies

Statement of compliance

The Company is a private company limited by shares and is incorporated in England. The registered office is 10 Bressenden Place, London, SW1E 5DN.

The Company's financial statements have been prepared in compliance with FRS 102 'The Financial Reporting Standard applicable to the UK and the Republic of Ireland' as it applies to the financial statements of the Company for the year ended 31 December 2017.

The principal accounting policies used in preparing these financial statements are set out below. These policies have been consistently applied to all the years presented in dealing with items that are considered material in relation to the financial statements.

In preparing financial statements, management develops estimates and judgements that affect the reported amount of assets and liabilities, revenues and costs, and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

The financial statements have been prepared on the going concern basis of accounting under the historical cost convention, except for share-based payments that are measured at fair value.

The financial statements are presented in pounds sterling (£ '000s).

Summary of disclosure exemptions

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent company, PA Consulting Group Limited, which are publicly available.

The financial statements of PA Consulting Group Limited may be obtained from 10 Bressenden Place, London, SW1E 5DN.

Notes to the Financial Statements for the Year Ended 31 December 2017

FRS 102 paragraphs 1.12 and 33.1A allow a qualifying entity certain disclosure exemptions. These disclosure exemptions are available subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The equivalent disclosures are included in the consolidated financial statements of PA Consulting Group Limited.

The Company has taken advantage of the following exemptions:

(i) from preparing a statement of cash flows as required by FRS 102 Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);

(ii) from disclosing share based payment arrangements using equity instruments of another group entity as required by FRS 102 paragraphs 26.18(b), 26.19 to 26.21 and 26.23;

(iii) from disclosing transactions entered into between the Company and other wholly owned companies within the PA Consulting Group Limited group as required by FRS 102 paragraphs 33.8 to 33.14;

(iv) from disclosing the financial instrument disclosures, required under FRS 102 paragraphs 11.41(b) / (c) / (e) / (f), 11.42, 11.44 to 11.45, 11.47, 11.48 (a) (iii) / (iv), 11.48 (b) / (c) and paragraphs 12.26 to 12.27, 12.29 (a) / (b) and 12.29A, as the information is provided in the consolidated financial statement disclosures.

Turnover

Turnover represents the fair value of the consideration received or receivable for consulting services on each client assignment provided during the year, including expenses and disbursements but excluding discounts, value added tax and other similar sales taxes. Expenses and disbursements include mileage, accommodation, materials and subcontractor fees.

Turnover from time and materials contracts is recognised as the services are provided on the basis of time worked at an hourly or daily rate and as direct expenses are incurred.

Turnover from long-term contracts is recognised over the contract term using the percentage of completion method. The stage of completion of a long-term contract is measured as the proportion that costs incurred for work performed to date bear to the estimated total costs of the contract. Estimated total costs of the contract are reviewed regularly and where necessary, revised.

Turnover in respect of contingent fee assignments (over and above any agreed minimum fee) is only recognised when the contingent event occurs and collectability of the fee is assured.

No turnover is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs. An expected loss on a contract is recognised immediately in the income statement.

The gross amount invoiced to clients but not yet received is separately disclosed within debtors as trade debtors. Unbilled turnover on individual client assignments is included as accrued income within debtors. Where billings exceed turnover on client assignments, the excess is classified as payments on account within creditors.

Interest income and expense

Interest income and expense is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Research and development

Research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit.

Notes to the Financial Statements for the Year Ended 31 December 2017

Foreign currency transactions and balances

(a) Functional and presentation currency

The functional currency of the Company and its overseas branches is the currency of the primary economic environment in which each operates. The financial statements are presented in sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of each entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at rates ruling at the statement of financial position date. Such exchange differences are included in the income statement under other administrative expenses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(c) Consolidation

For the purpose of presenting the financial statements, the results and financial position of overseas branches (none of which has the currency of a hyperinflationary economy) that have a functional currency other than sterling are translated into sterling as follows:

Assets and liabilities within the statement of financial position are translated at the exchange rate at the balance sheet date;

Income and expenses within the income statement are translated at the exchange rate ruling at the time of each period the transaction occurred;

All resulting exchange differences are taken directly to the profit and loss reserve via the statement of comprehensive income.

Tax

The tax charge comprises current tax payable and deferred tax.

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Company's taxable profits and is based on an interpretation of existing tax laws. Taxable profit differs from profit before tax as reported in the income statement as it excludes certain items of income and expense that are taxable or deductible in other years or are never taxable or deductible.

Deferred tax 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 have occurred at that date which will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2017

Tangible assets

Tangible fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment. Cost comprises purchase price after discounts and rebates plus all directly attributable costs of bringing the asset to working condition for its intended use. Finance costs are not capitalised and are recognised as an expense when incurred.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that carrying values may not be recoverable.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. Depreciation is charged on assets from the date in which they are brought into use. The principal annual rates used for this purpose are:

Asset class	Depreciation method and rate
Computer equipment	on cost 20%-50%
Office furniture, equipment and machinery	on cost 10%-33%
Freehold property	on cost 2%-10%
Leasehold property	Equal instalments over the remaining period of lease unless the economic life of the asset is determined to be less than that of the lease

Intangible assets

Intangible assets are capitalised at cost and amortised over the period during which the Company is expected to benefit.

Intangible assets relate to investments in new enterprise resource planning (ERP) software. The costs capitalised represent costs of development by an external company and are amortised on a straight-line basis over their useful life of three years. Internal costs of development are expensed as incurred.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Fixed asset investments

Investment in subsidiaries is stated at cost less provision for impairment in value.

The carrying value of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The value in use method is used to determine the recoverable amount.

Financial instruments

Basic financial assets and liabilities are recorded at the present value of the future cash flows discounted at a rate of interest that the directors deem indicative of the PA Consulting Group's cost of external borrowing, except employee related liabilities payable 12 months after the statement of financial position date that are discounted at a rate of interest equivalent to high-quality corporate bonds of similar length.

Cash

Cash is a basic financial asset comprising cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Notes to the Financial Statements for the Year Ended 31 December 2017

Provisions

The Company recognises a provision when it has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date.

Provision is made for onerous property lease commitments, after allowance for anticipated sublet rental income, and to restore premises to their original condition upon vacating them where such an obligation exists under the lease.

Operating lease income and expense

(a) Rental expense

Operating lease rentals are charged as other administrative expenses to the income statement in equal annual amounts over the lease term. Assets leased under operating leases are not recorded on the statement of financial position because the lessor retains a significant portion of the risks and rewards of ownership.

(b) Lease incentives

The benefit of lease incentives such as rent-free periods or up-front cash payments are spread equally on a straight-line basis over the lease term.

(c) Rental income

Operating lease income consists of rentals from subtenant agreements and are recognised on a straight-line basis over the lease term and classified as other operating income in the income statement.

Share capital

The ordinary shares are classified as equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are measured at the fair value of the cash or other proceeds received or receivable, net of direct issue costs. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Notes to the Financial Statements for the Year Ended 31 December 2017

Employee benefits

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Defined benefit pension obligation

The Company operates one defined benefit pension scheme that requires contributions to be made to a separately administered fund.

The Prudential Platinum scheme was closed to new members in October 2015, from which point membership transferred to an alternative defined benefit scheme for which the Company is not responsible for ongoing funding. On 1 September 2016, a group of members of the scheme transferred their cumulative benefits out of the scheme to an alternative defined benefit scheme for which the Company is not responsible for ongoing funding.

The transfer has been treated as a settlement of the scheme and a curtailment charge has been recognised in the income statement.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss that is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate at the start of the period, and taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statement as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the income statement in subsequent periods.

The defined net benefit pension asset or liability in the statement of financial position comprises the total for the plan of the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds) less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Share based payments

The Company provides benefits to its employees in the form of cash-settled share-based payment transactions, whereby employees render services in exchange for the value of those shares in cash terms. For these cash-settled share-based payments, the fair value of the employee services rendered is determined at each statement of financial position and the charge recognised through the income statement over the vesting period of the share-based payment plan, with the corresponding increase in creditors. The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in creditors.

Notes to the Financial Statements for the Year Ended 31 December 2017

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts redundancy in exchange for these benefits. The Company recognises termination benefits as an expense when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Bonus plans

The Company recognises a liability and an expense for bonuses based on a formula that takes into consideration the Company's profit before tax after certain adjustments. The Company recognises bonus liabilities and expenses where there is a past practice that has created a constructive obligation or there is a contractual obligation.

Short-term compensated absences

The Company recognises the expected cost of accumulating compensated absences, primarily annual leave, when the employees render service that increases their entitlement to future compensated absences.

Notes to the Financial Statements for the Year Ended 31 December 2017

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expenses. The Company bases its estimates and judgements on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. The estimates and judgements considered to be significant are detailed below:

Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Assumptions are made around the level of disallowable expenses and provisions are also made for uncertain exposures; this affects the tax calculation and can have an impact on both deferred and current tax. Tax assets are not recognised unless it is probable that the benefit will be realised and tax provisions are made if it is probable that a liability will arise. The final resolution of these transactions may give rise to adjustments to the income statement and/or cash flow in future periods. The Company reviews each significant tax asset or liability each period to assess the appropriate accounting treatment. Refer to note 11 for further details.

Turnover from long-term contracts

Turnover from long-term contracts is recognised by reference to management's judgement of the stage of completion of the contract at the end of the reporting period and includes an estimate of the costs to complete the contract. Performance over the remaining contract term may result in revised estimates of turnover and costs with a cumulative adjustment to turnover and profit reported in future periods.

Provisions for work in progress assets and customer receivables

Provisions are made for work in progress assets and customer receivables where there is doubt over their recoverability. The provision is an estimate calculated in accordance with a defined Company policy based on historical experience and information available at the reporting date. Future recovery or otherwise of these assets will result in a release of the provision or increase in the charge to the income statement.

Provision for liabilities

The Company recognises a provision for liabilities when it has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Determining the level of provision required requires the use of both judgement and estimates. Subsequent resolution of these matters may result in an increase or decrease in the actual cash out flows required to settle the liability.

Pension liabilities

The present value of pension liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 21. Any change in these assumptions will impact on the carrying amount of pension liabilities. Note 21 describes the key assumptions used in the accounting for retirement benefit obligations.

2 Revenue

All revenue is derived from the rendering of services.

The analysis of the company's turnover for the year by market is as follows:

Notes to the Financial Statements for the Year Ended 31 December 2017

	2017 £ 000	2016 £ 000
UK	288,638	284,139
Europe (excluding UK & Scandinavia)	12,486	11,848
Scandinavia	2,847	2,003
Americas	4,745	9,816
Asia Pacific	9,802	7,389
	<u>318,518</u>	<u>315,195</u>

3 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2017 £ 000	2016 £ 000
Rental income from property subleases	<u>2,909</u>	<u>2,798</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

4 Exceptional costs

	Note	2017 £ 000	2016 £ 000
Finance systems upgrade	4.1	(751)	(1,043)
Onerous lease provision	4.2	-	(10,215)
Other costs	4.3	-	(345)
		<u>(751)</u>	<u>(11,603)</u>

During the year, the Company incurred certain costs that the directors believe are of an exceptional nature and quantum and should be separately disclosed.

4.1

These costs relate to the ongoing upgrade of the financial systems.

4.2

The onerous lease provision is required on the Company's existing London office as the Company moves offices.

4.3

These costs relate to various other costs that the directors believe are exceptional in nature.

5 Operating profit

Arrived at after (charging)/crediting

	2017 £ 000	2016 £ 000
Depreciation expense	(2,974)	(4,036)
Amortisation expense	(1,341)	(1,412)
Research and development cost	(10,033)	(6,813)
Foreign exchange (losses)/gains	(270)	590
Operating lease expense - property	(9,333)	(5,399)
Operating lease expense - plant and machinery	(99)	(131)
Loss on disposal of property, plant and equipment	<u>(53)</u>	<u>(5)</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

6 Interest receivable

	2017 £ 000	2016 £ 000
Interest receivable on amounts owed by group undertakings	34	284
Interest income on tax refund	7	-
	<u>41</u>	<u>284</u>

7 Interest payable

	2017 £ 000	2016 £ 000
Interest expense on other finance liabilities	1,929	1,427
Interest payable on amounts owed to group undertakings	170	59
	<u>2,099</u>	<u>1,486</u>

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £ 000	2016 £ 000
Wages and salaries	6,503	7,360
Social security costs	304	306
Pension costs, defined contribution scheme	316	362
Share-based payment expenses	-	79
Other employee expense	741	314
	<u>7,864</u>	<u>8,421</u>

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Consultants	45	66
Administration and support	4	4
	<u>49</u>	<u>70</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Aggregate emoluments in respect of qualifying services	2,280	2,778
Company contributions to money purchase pension schemes	19	31
	<u>2,299</u>	<u>2,809</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2017 No.	2016 No.
Accruing benefits under defined benefit pension scheme	2	2
Accruing benefits under money purchase pension scheme	6	5

In respect of the highest paid director:

	2017 £ 000	2016 £ 000
Total amount of emoluments and amounts receivable under long-term incentive scheme	1,279	1,749
Contributions to defined contribution pension arrangements	-	5

All directors were employed by and received all emoluments from other PA Group undertakings. The directors perform duties for multiple entities in the PA Group and it is not practical to allocate their compensation between group entities.

10 Auditor's remuneration

	2017 £ 000	2016 £ 000
Audit of the financial statements	<u>68</u>	<u>73</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

11 Taxation

(a) Tax on profit on ordinary activities

Tax charged/(credited) in the income statement

	2017 £ 000	2016 £ 000
Current taxation		
UK corporation tax	8,895	6,052
UK corporation tax adjustment to prior periods	<u>(1,081)</u>	<u>(446)</u>
	<u>7,814</u>	<u>5,606</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(1,380)	(1,204)
Deferred tax adjustment relating to previous years	<u>894</u>	<u>499</u>
Total deferred taxation	<u>(486)</u>	<u>(705)</u>
Tax expense in the income statement	<u><u>7,328</u></u>	<u><u>4,901</u></u>

(b) Factors affecting the tax charge during the period

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit before tax	<u>37,944</u>	<u>21,413</u>
Corporation tax at standard rate	7,304	4,282
Expenses not deductible for tax purposes	240	597
Effect of change of tax rate on opening deferred tax asset	(29)	(31)
Tax overprovided in previous years	<u>(187)</u>	<u>53</u>
Total tax charge	<u><u>7,328</u></u>	<u><u>4,901</u></u>

Notes to the Financial Statements for the Year Ended 31 December 2017

(c) Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000
2017		
Other Timing Differences	6,117	-
Accelerated capital allowances	-	(628)
	<u>6,117</u>	<u>(628)</u>
2016		
Other Timing Differences	6,171	-
Accelerated capital allowances	-	(1,169)
	<u>6,171</u>	<u>(1,169)</u>

Deferred tax liabilities relating to accelerated capital allowances will reverse as the underlying assets are depreciated. Deferred tax assets mainly represent deferred remuneration. These will reverse as the deferred remuneration is paid.

There was no tax included in the statement of other comprehensive income relating to deferred tax relating to the actuarial gain on the defined benefit pension scheme (2016: £58,000).

(d) Factors that may affect future tax charges

The Finance Act 2016 reduced the standard rate of UK corporation tax from 1 April 2020 from 18% to 17%.

12 Intangible assets

	Software £ 000	Total £ 000
Cost or valuation		
At 1 January 2017	4,704	4,704
Additions	<u>1,610</u>	<u>1,610</u>
At 31 December 2017	<u>6,314</u>	<u>6,314</u>
Amortisation		
At 1 January 2017	3,162	3,162
Amortisation charge	<u>1,341</u>	<u>1,341</u>
At 31 December 2017	<u>4,503</u>	<u>4,503</u>
Carrying amount		
At 31 December 2017	<u>1,811</u>	<u>1,811</u>
At 31 December 2016	<u>1,542</u>	<u>1,542</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

13 Tangible assets

	Land and buildings £ 000	Short leasehold and property £ 000	Computer equipment £ 000	Office furniture, motor vehicles, equipment and machinery £ 000	Total £ 000
Cost or valuation					
At 1 January 2017	16,769	13,619	7,552	5,877	43,817
Additions	350	7,209	618	1,236	9,413
Disposals	(2)	(13,492)	(1,452)	(954)	(15,900)
Foreign exchange movements	-	1	(1)	10	10
At 31 December 2017	17,117	7,337	6,717	6,169	37,340
Depreciation					
At 1 January 2017	2,195	12,999	6,118	4,247	25,559
Charge for the year	787	679	1,038	470	2,974
Eliminated on disposal	-	(13,510)	(1,428)	(909)	(15,847)
Foreign exchange movements	-	1	-	10	11
At 31 December 2017	2,982	169	5,728	3,818	12,697
Carrying amount					
At 31 December 2017	14,135	7,168	989	2,351	24,643
At 31 December 2016	14,574	620	1,434	1,630	18,258

Notes to the Financial Statements for the Year Ended 31 December 2017

14 Investments in subsidiaries, joint ventures and associates

	2017 £ 000	2016 £ 000
Investments in subsidiaries	<u>1</u>	<u>1</u>
Subsidiaries		£ 000
Cost		
At 1 January 2017		<u>1</u>
Provision		
Carrying amount		
At 31 December 2017		<u>1</u>
At 31 December 2016		<u>1</u>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Holding	Proportion of voting rights and shares held	Principal activity
PA Technology Solutions Limited	Ordinary Shares	100.00%	Consultancy
PA Middle East Limited	Ordinary Shares	100.00%	Consultancy
PA Pension Trustees Limited	Ordinary Shares	48.00%	Dormant

PA Middle East Limited holds a 49% investment in PA Consulting Group (Qatar) LLC (incorporated in Qatar) in accordance with Qatar Commercial Companies Law and therefore the Company has a 49% indirect investment in PA Consulting Group (Qatar) LLC.

15 Debtors: amounts falling due within one year

	2017 £ 000	2016 £ 000
Trade debtors	43,363	36,724
Amounts owed by group undertakings	96,118	144,933
Other debtors	1,447	1,217
Prepayments	6,672	6,254
Accrued income	17,252	15,475
Income tax asset	<u>377</u>	<u>844</u>
	<u>165,229</u>	<u>205,447</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

16 Debtors: amounts falling due after one year

	2017 £ 000	2016 £ 000
Deferred tax	5,489	5,003
Other debtors	1,625	910
	<u>7,114</u>	<u>5,913</u>

17 Cash

	2017 £ 000	2016 £ 000
Cash on hand	20	-
Cash at bank	1,253	3,885
	<u>1,273</u>	<u>3,885</u>

18 Creditors: amounts falling due within one year

	2017 £ 000	2016 £ 000
Trade creditors	292	727
Amounts owed to group undertakings	1,178	5,351
Social security and other taxes	15,565	14,741
Other payables	7,022	4,381
Accrued expenses	4,326	2,847
Corporation tax liability	1,858	-
Deferred income	10,504	10,459
Bonuses	35,813	28,376
	<u>76,558</u>	<u>66,882</u>

19 Creditors: amounts falling due after one year

	2017 £ 000	2016 £ 000
Bonuses	24,815	25,624

Notes to the Financial Statements for the Year Ended 31 December 2017

20 Other provisions

	Property provisions £ 000	Total £ 000
At 1 January 2017	11,180	11,180
Charged to the income statement	142	142
Utilised in the period	(5,225)	(5,225)
At 31 December 2017	6,097	6,097

Property provisions relate to the difference between rents payable and rents receivable in all vacant and sublet space and dilapidations obligations on leasehold properties over the term of the lease.

21 Retirement benefits

The Company operates a defined contribution pension scheme and a defined benefit pension scheme, both of which are self-administered and their assets are held independently of the Company's finances in either separate insurance-based schemes or trustee administered funds.

Defined contribution pension scheme

The total pension costs for the Company relating to employer contributions to defined contribution pension arrangements was £316,000 (2016: £362,000).

Contributions totalling £7,000 (2016: £8,000) were payable to the scheme at the end of the year and are included in creditors.

Defined benefit pension scheme

The defined benefit pension scheme was closed to new members in October 2015, from which time membership transferred to an alternative defined benefit scheme for which the Company is not responsible for ongoing funding. On 1 September 2016, a group of members of the scheme transferred their benefits out of the scheme to the alternative scheme. There are 29 active members and 6 deferred pensioners remaining in the scheme.

The scheme surplus of £200,000 is not recognised as the surplus is not expected to be recoverable through reduced contributions or agreed refunds from the scheme.

Analysis of defined pension arrangement net assets and liabilities included in the statement of financial position

	2017 £ 000	2016 £ 000
Defined benefit pension arrangements with gross assets	200	153
Restriction to apply on recognition of surplus	(200)	(153)
	-	-

Notes to the Financial Statements for the Year Ended 31 December 2017

Analysis of amounts recognised in the income statement

	2017 £ 000	2016 £ 000
Running costs	(29)	(25)
Loss on settlement	-	(345)
	<u>(29)</u>	<u>(370)</u>

Analysis of amounts recognised in the statement of other comprehensive income

	2017 £ 000	2016 £ 000
Actual return on assets less interest	26	951
Actuarial loss on liability	18	(1,477)
Restriction to apply on recognition of surplus	(43)	871
Actuarial gain recognised on defined benefit pension arrangement	1	345
Deferred taxation	-	(58)
Total recognised in the statement of other comprehensive income	<u>(1)</u>	<u>(287)</u>

The full disclosures required by FRS 102 are not provided because, in the directors' opinion, the arrangement is immaterial to the net assets of the Company.

22 Share capital

Allotted, called up and fully paid shares

	2017		2016
	No. 000	£ 000	No. 000 £ 000
Ordinary shares of £1 each	<u>200</u>	<u>200</u>	<u>200 200</u>

23 Operating leases

Leases as lessee

The Company has lease agreements in respect of property and equipment for which payments extend over a number of years. The Company enters into these arrangements as these are a cost-efficient way of obtaining the short-term benefits of these assets. The Company lease rental charges are disclosed in note 5. There are no other material off-balance sheet arrangements.

The Company's commitment for future minimum lease payments under non-cancellable operating leases is as follows:

	2017 £ 000	2016 £ 000
Within one year	6,611	6,562
Between two and five years	16,263	17,481
Over five years	<u>42,576</u>	<u>46,820</u>
	<u>65,450</u>	<u>70,863</u>

Notes to the Financial Statements for the Year Ended 31 December 2017

Leases as lessor

The Company subleases out certain properties under operating leases.

The Company's lease income is disclosed in note 3.

The minimum rent receivable under non-cancellable operating leases is as follows:

	2017 £ 000	2016 £ 000
Within one year	2,621	2,899
Between two and five years	-	2,621
	<u>2,621</u>	<u>5,520</u>

24 Dividends

	2017 £ 000	2016 £ 000
Interim dividend of £350.00 (2016 - £Nil) per ordinary share	<u>70,000</u>	<u>-</u>

A dividend of £70 million was declared and paid during the year (2016: £Nil).

25 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £1,732,000 (2016 - £737,927).

Other financial commitments

The Company has guaranteed bid, performance and rent bonds issued by its banks on its behalf in the ordinary course of business totalling £394,740 (2016 - £527,572). These are not expected to result in any material financial loss.

26 Contingent liabilities

In common with comparable consultancy organisations, the Company maintains a variety of insurance policies including professional indemnity insurance. If a claim is raised, the directors assess each claim and provide for legal and settlement costs where, on the basis of the advice received, it is considered a liability may exist. Having sought advice, no additional provision has been made in the current year.

27 Related party transactions

The Company has taken advantage of the exemptions available under FRS 102 Section 33.1A from disclosing intra-Group transactions and balances with wholly owned subsidiaries.

During the year the Company entered into transactions, in the ordinary course of business, with entities affiliated with the controlling shareholder of the PA Consulting Group. The sales to those related parties were subject to standard client procurement policies. The directors therefore consider that all such transactions have been entered into on an arms-length basis. Transactions entered into, and trading balances outstanding at 31 December, are as follows:

Notes to the Financial Statements for the Year Ended 31 December 2017

Income and receivables from related parties

	Entities with joint control or significant influence £ 000
2017	
Receipt of services	70
Amounts receivable from related party	<u>4</u>
	Entities with joint control or significant influence £ 000
2016	
Receipt of services	1,059
Amounts receivable from related party	<u>58</u>

28 Parent and ultimate parent undertaking

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is PA Consulting Group Limited, incorporated in England and Wales.

The registered office address of PA Consulting Group Limited is:
10 Bressenden Place, London, SW1E 5DN

The Company's immediate parent is PA Holdings Limited, incorporated in England and Wales.

The most senior parent entity producing financial statements for the year ended 31 December 2017 is PA Consulting Group Limited. These financial statements are available upon request from 10 Bressenden Place, London, SW1E 5DN.

The ultimate controlling party is Carlyle Europe Partners IV L.P..