Registered No: 00942215

Ericsson Limited

Report and Financial Statements

Year ended 31 December 2018

Contents

	Page(s)
Strategic report	2 - 3
Directors' report	4 - 5
Independent auditors' report	6 - 7
Income statement	8
Statement of comprehensive income	8
Balance sheet	9
Statement of cash flows	10
Statement of changes in equity	10
Notes to the financial statements	11 - 29

Strategic report

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

Review of the business

The Company is a major product and service provider to fixed and mobile telecommunications systems operators in the UK. The company continues to provides all-IP and 4G/LTE networks as the evolution of telecommunications towards data continues. Our portfolio also includes a wide range of OSS/BSS, transmission solutions, Media Delivery Network solution for telecom operators, and Customer Experience Management (CEM). We continue to deliver managed services, consulting and systems integration, customer support and network rollout.

The Company delivered a satisfactory performance in 2018 as it continued to improve delivery of its local services contracts and expand its product sales to its existing customer base. The continuing growth in the UK economy should present further opportunities to our customers and our business, although we expect mobile operators to continue to focus on increasing their operational efficiency, consolidation opportunities and reducing their operating expenses in a competitive trading environment.

The gross margin percentage has increased during the year to 16.8% from 16% in the prior year.

Principal risks and uncertainties (Market, Technology and Business Risks)

Challenging macro economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow. Challenging economic conditions could have adverse, wide-ranging effects on demand for our products and for the products of our customers. Adverse global economic conditions could cause network operators to postpone investments or initiate other cost cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

The UK telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by operators and other customers regarding their deployment of technology and their timing of purchases.
The UK telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Even if macro economic conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected. If capital expenditures by service providers and other customers is weaker than we anticipate, our revenues and profitability may be adversely affected. The level of demand by service providers and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results, and cash flow remains difficult.

Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.
Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth and profitability.

Financial key performance indicators (KPIs)

The Company's key financial performance indicators during the year were as follows:

	2018 £000	2017 £000	% Change
Revenue	**432,374**	404,128	7.0%
Gross profit	**72,477**	64,725	12.0%
Gross margin %	**16.8%**	16.0%	0.7%
Profit before taxation	**13,103**	12,717	3.0%
Current assets as % of current liabilities	**93.9%**	94.6%	(0.7)%
Average number of employees	**1,521**	1,788	(14.9)%

Strategic report (continued)

Financial key performance indicators (KPIs)

Revenue by region:

	2018 £000	2017 £000	% Change
UK	**412,634**	372,189	10.9%
Rest of Europe	**19,740**	31,847	(38.0)%
Other	**-**	92	(100.0)%

Financial position

The financial position of the Company is presented in the balance sheet, on page 9, and is summarised as follows:

	2018 £000	2017 £000
Total equity:		
Total assets	**439,055**	413,098
Total liabilities	**290,900**	295,814
	148,155	117,284

On behalf of the Board

Mr L O'Brien
Director
28/08/2019

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Principal activities

The Company is a limited liability company, incorporated and domiciled in the United Kingdom. Its registered office and principal place of business is 14th Floor, Thames Tower, Station Road, Reading, Berkshire RG1 1LX.

The principal activities of the company are the design, supply, installation and service of telecommunications equipment and network services. The company provides complete solutions for the telecommunications sector, including fixed and mobile networking, intelligent network platforms, telecom management solutions, end-user applications and service delivery.

Future developments

Ericsson's vision is of a Networked Society where everything that benefits from being connected will be connected. During the transformation to the Networked Society clear customer segmentation is taking place as operators assume different roles in the transforming information and communications technology (ICT) market. Ericsson supports its customers in the new ICT landscape by using the advantages of technology leadership, a position which has resulted in a competitive portfolio of radio networks, core networks and backhaul solutions. Since network performance has become the prime driver of consumer loyalty, and increasing customer loyalty has significant benefits in terms of generating long-term value, there is also a demand for network design and optimization expertise to maintain high-quality of service, including accessibility, speed, reliability and high-quality user experience.

Ericsson has identified three emerging and strategic operator segments where connectivity is, and will continue to be, the foundation of business: Network developer; Service enabler; and Service creator.

Network developer: Ericsson addresses the demands with solutions for high-performance network architecture including mobile infrastructure, software-defined networking (SDN) technologies, network functions virtualization (NFV) and indoor connectivity.

Service enabler: Ericsson addresses demands for a high-performing network, billing, customer care and service assurance with its OSS and BSS platforms and professional services offering. These offerings cater to needs for control and management of operations and the identification of new revenue streams. Included in Ericsson's offerings are also the Network-enabled Cloud, network functions virtualization (NFV) and software-defined networking technologies that enable common management and orchestration across network resources and cloud applications.

Service creator: Ericsson offers intelligent nodes and platforms, and tools to transform the platforms, including service capabilities that fit the demands of service creators and enable them to expand their business. Ericsson also addresses service creator needs by providing technology that brings cloud capabilities into the network, with the flexibility and elasticity needed to deploy software applications wherever and whenever they are needed. Offerings include Smart Meter Managers and IoT Security.

Dividends

No interim dividend payment was made during the year and the directors have not declared a final dividend in respect of 2018 (2017: £Nil). An interim dividend for 2019 of £12.5m has been proposed by the directors in a board meeting held on the 28 August 2019 to be made to the Company's parent company, Ericsson (Holdings) Limited.

Post balance sheet event

An interim dividend for 2019 of £12.5m was proposed by the directors in a board meeting held on the 28 August 2019 to be made to the Company's parent company, Ericsson (Holdings) Limited.

Directors and their interests

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Mr L O'Brien
Ms M Lindgren
Mr R Peacock (appointed 14 December 2018)

None of the directors held any interest in the share capital of the Company or that of its UK parent company, Ericsson (Holdings) Limited, at any time during the year. During the year and at the date of approval of the financial statements, the Company held third party indemnity cover in respect of directors.

The directors are the only key management personnel of the Company and their remuneration is included in the disclosure in note 18 of the financial statements.

Financial risk management

The Company's financial risk management policy is primarily driven by Ericsson Group Treasury. The principal role is to ensure that appropriate financing is in place to manage the Company's liquidity as well as financial assets and liabilities, and to control financial risks exposures in a manner consistent with underlying business risks and financial policies. The Company does not undertake any local hedging activities.

See Note 16 for further details on foreign exchange, interest rate and liquidity risks.

Employment policies

Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' report (continued)

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Policy and practice on payment of creditors

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are informed of payment and that the Company abides by the terms of payment.

Trade creditors (including intercompany) of the Company at 31 December 2018 were equivalent to 35 days purchases (2017: 69 days), based on the average daily amount invoiced by suppliers during the year.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- *state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and* explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the 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.

Disclosure of information to the auditors

In accordance with Section 418 of the Companies Act 2006 in the case of each director in office at the date the directors' report, it has been approved that:

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

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board

Mr L O'Brien
Director
28/08/2019

Independent auditors' report to the members of Ericsson Limited

Report on the audit of the financial statements

Opinion

In our opinion, Ericsson Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

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 year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Ericsson Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page X, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting
Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Allsop (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date: 27/08/2019

Income statement
Year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	2	**432,374**	404,128
Cost of sales		**(359,897)**	(339,403)
Gross profit		**72,477**	64,725
Administration and selling expenses		**(57,342)**	(50,540)
Operating profit	3	**15,135**	14,185
Finance expense	6	**(6,038)**	(6,346)
Finance income	6	**-**	3,577
Net pension scheme finance income	17	**4,006**	1,301
Profit before taxation		**13,103**	12,717
Tax	5(a)	**(2,761)**	2,045
Profit for the financial year		**10,342**	14,762

All of the above results relate to continuing activities.

Statement of comprehensive income
Year ended 31 December 2018

	Notes	2018 £000	2017 £000
Profit for the financial year		**10,342**	14,762
Other comprehensive income			
Actuarial profit on pension	17	**28,120**	79,195
Deferred tax movement on pension	5(c)	**(7,590)**	(20,496)
Total comprehensive income		**30,872**	73,461

The total comprehensive income above is attributable to the owners of the company.

Balance sheet

At 31 December 2018

	Notes	2018 £000	Restated 2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**6,440**	7,205
Pension asset	17	**188,420**	151,557
		194,860	158,762
Current assets			
Inventories	8	**42,781**	43,008
Contract assets	2	**18,574**	21,659
Trade and other receivables	9	**159,280**	119,800
Cash and cash equivalents	10	**23,560**	69,869
		244,195	254,336
TOTAL ASSETS		**439,055**	413,098
EQUITY AND LIABILITIES			
Total equity			
Share capital	13	**52,600**	52,600
Retained earnings	14	**95,555**	64,683
		148,155	117,283
Non-current liabilities			
Provisions	12	**30,845**	26,853
		30,845	26,853
Current liabilities			
Provisions	12	**34,079**	33,081
Contract liabilities	2	**33,127**	57,528
Trade and other payables	11	**192,849**	178,353
		260,055	268,962
TOTAL EQUITY AND LIABILITIES		**439,055**	413,098

The financial statements on pages 8 to 29 were approved and authorised for issue by the board and were signed on their behalf by Mr L O'Brien on 28/08/2019. Amendments to the financial statements are not permitted after approval.

Mr L O'Brien (Director)
Registered No: 00942215

Statement of cash flows

For the year ended 31 December 2018

	Note(s)	2018 £000	Restated 2017 £000
Operating activities			
Profit before taxation		**13,103**	12,717
Adjustments for:			
Depreciation	7	**3,036**	3,058
(Gain) / loss on disposal of property, plant and equipment		**2,267**	1,660
Finance costs		**6,038**	6,346
Net pension scheme finance income		**(4,006)**	(1,301)
Changes in operating net assets			
Inventories	8	**227**	(1,233)
Contract assets		**3,085**	563
Trade and other receivables		**(42,411)**	(12,437)
Contract liabilities		**(24,401)**	14,812
Trade and other payables		**13,623**	(13,769)
Provisions	12	**(1,470)**	19,204
Pensions		**(4,737)**	(20,586)
Cash (used in) / generated from operations		**(35,646)**	9,034
Cash (outflow) / inflow from operating activities		**(35,646)**	9,034
Investing activities			
Investments in property, plant and equipment	7	**(4,625)**	(3,711)
Cash outflow from investing activities		**(4,625)**	(3,711)
Financing activities			
Interest paid	6	**(6,038)**	(6,346)
Cash outflow from financing activities		**(6,038)**	(6,346)
Net change in cash		**(46,309)**	(1,023)
Cash and cash equivalents, beginning of year		**69,869**	70,892
Cash and cash equivalents, end of year	10, 11	**23,560**	69,869

For the purpose of the statement of cash flows, the cash and cash equivalents at the end of the year include amounts held in foreign currencies of £23.6m (see note 10), and an overdraft balance of £nil (see note 11).

Statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2018	14	52,600	64,683	117,283
Profit for the financial year	14	-	10,342	10,342
Other comprehensive income		-	20,530	20,530
At 31 December 2018		**52,600**	**95,555**	**148,155**
At 1 January 2017	14	52,600	(8,778)	43,822
Profit for the financial year	14	-	14,762	14,762
Other comprehensive income		-	58,699	58,699
At 31 December 2017		52,600	64,683	117,283

Notes to the financial statements
For the year ended 31 December 2018

1 Accounting policies

Basis of preparation

The Company is a limited liability company, incorporated and domiciled in the United Kingdom. Its registered office and principal place of business is Unit 14th Floor, Thames Tower, Station Road, Reading, Berkshire RG1 1LX.

The principal activities of the Company are the design, supply, installation and service of telecommunications equipment and network services. The Company provides complete solutions for operators, and consumers from fixed and mobile networking, intelligent network platforms, telecom management solutions, through to end-user applications and service delivery.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to limited companies reporting under IFRS.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy on financial instruments and plan assets related to defined benefit pension plans.

The financial statements have been prepared on the going concern basis as the ultimate parent company, Telefonaktiebolaget L M Ericsson, has stated it will provide all necessary financial support to the Company for at least 12 months from the date of approval of these financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

Standards, amendments and interpretations effective in 2018

New standards and interpretations adopted

Below is a list of standards that have been issued and adopted by the company. These are effective starting from 1 January 2018 and impacts certain disclosures in these financial statements as follows:

IFRS 9 - Financial instruments
The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 updates the classification, measurement and impairment of financial assets as well as provides new requirements for hedge accounting. The Company applied IFRS 9 with a cumulative retrospective adjustment on the required effective date, January 1, 2018, and has not restated comparative information. The main impact from adopting IFRS 9 is that impairment losses for trade receivables and contract assets are calculated based on lifetime expected credit losses (ECL) instead of objective evidence that the Company is not be able to collect, as under the previous standards. This does not represent a change in expected cash flows collected by the Company. Rather, this represents a change in the timing of the recognition of losses, which in most cases is earlier under IFRS 9 compared to the previous standards. There is no impact on prior year financials due to the adoption of the new standard.

Trade receivables are managed in a business model whose objective is achieved through both collection of contractual cash flows and selling of assets. Therefore, trade receivables will be classified as fair value through other comprehensive income (FVOCI).

IFRS 15 - Revenue from contracts with customers

IFRS 15 replaces guidance in IAS 18 and IAS 11. This standard establishes a new principle-based model of recognising revenue from customer contracts. It introduces a five-step model that requires revenue to be recognised when control over goods and services are transferred to the customer.

The Company has adopted the full retrospective method for transition which requires restatement of prior year comparatives and adjustment to equity in the earliest presented comparative period, i.e. January 1, 2017 ('initial application date').

Discount in a contract
The definition of a contract in IFRS 15 is stricter than standards effective prior to 2018 (previous standards) in that a contract exists only when enforceable rights and obligations are present. The majority of the Company's business is conducted via frame agreements. Typically, a customer purchase order, together with a frame agreement, creates a firm enforceable commitment. The stricter definition of a contract affects how discounts are accounted for, as discounts shall be applied over the value and duration of a contract. Under the previous standards, the Company considers a broader interpretation of a contract from which it reasonably expects to derive benefit. For a business covered by frame agreement this may result in a longer timeframe for recognition of related discounts as future expected purchases are included in the assessment. The impact of IFRS 15 is that these discounts shall be recognised as a reduction in revenue earlier.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1 Accounting policies (continued)

Stricter contract criteria
The stricter criteria under IFRS 15 also meant that some temporary contracting practices result in arrangements that do not meet the definition of a contract, in particular, the criteria that legally enforceable rights and obligations should exist together with a clear intention by the customer to pay under the arrangements. Under the accounting standards prior to IFRS 15, revenue is currently recognised if it is probable that economic benefits associated with the transaction will flow to the entity. The impact of IFRS 15 is that revenue under such arrangements shall be delayed until all the criteria for contract are satisfied, or upon cash receipt.

Material right option
Under IFRS 15, material right option shall be viewed as a separate performance obligation to which a transaction price shall be allocated under the contract. This typically occurs in firm contract where the customer is provided with an incentive to purchase additional products or services at an incremental discount in future contracts. Under the accounting standards prior to IFRS 15, such incentive is treated as price discount when the purchase of additional products or services occurs in future. The impact of IFRS 15 is that a value for the material right option shall be allocated as a separate performance obligation in the contract where the incentive is provided, resulting in a deferral of revenue.

Customised solution contract
Under IFRS 15 revenue for customised solution contracts shall be recognised over time if certain criteria are met. These contracts relate to the construction of assets specifically customised for the customer and with no alternative use to the Company. IFRS 15 also requires the Company to have enforceable right to payment for performance completed to date. The Company recognised revenue under previous standards over the duration of these contracts based on defined delivery milestones. No significant changes are expected in the method of measuring progress of completion over the duration of the contract. However, the additional requirement under IFRS 15 will ensure that revenue is recognised for performance completed to date based on enforceable right to payment that exists at that point.

Transfer of control for equipment
Under IFRS 15, revenue shall be recognised when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. For hardware sale, transfer of control is usually deemed to occur when equipment arrives at the customer site and for software sale, when the licences are made available to the customer. Contractual terms may vary, therefore judgment will be applied when assessing the indicators of transfer of control. The accounting treatment under previous standards focused on a risk and reward assessment.

Presentation of contract related balances
The new requirement for classification and presentation of contract related balances under IFRS 15 will result in a separate presentation of the contract asset and contract liability balances. Under previous standards these balances have been included within trade receivables as the accounting policy for 2017 states that trade receivables include amounts where risks and rewards have been transferred to the customer but not yet invoiced. Under IFRS 15, these balances will be presented as contract assets as the Company concluded that they relate to contract assets that are conditional on something other than the passage of time. Under IFRS 15 contract liability balances will be presented separately within current liabilities. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Company concluded that they meet the definition of contract liability under IFRS 15.

New standards and interpretations not yet adopted

New standards, amendments to standards and interpretations are not yet effective for the year ended 31 December and have not been applied in preparing these financial statements.

IFRS 16 - Leases
The standard is effective for annual periods beginning on or after January 1, 2019. The Company appied the new standard as from January 1, 2019. At transition, the Company applied the practical expedient under IFRS 16 to not reassess whether a contract is, or contains, a lease. Therefore, the Company applied the standard to contracts previously identified as leases, or as containing a lease under IAS 17 and IFRIC 4.

The Company will elect to implement the standard using the cumulative catch-up method, with the cumulative effect being adjusted to the opening retained earnings balance at transition date. There will be no restated information presented for previous years.

At transition, the Company, as a lessee, will recognise lease liabilities for leases previously classified as operating leases. The weighted average incremental borrowing rate to be applied to lease liabilities recognised in the balance sheet at the transition date is estimated to 4.5%. Right-of-use assets will for most contracts be recognised based on the amount equal to the related lease liability.

The Company will also apply the following practical expedients when applying IFRS 16 at transition date:

IAS 37 onerous lease contract measurement for the operating leases existing as per the transition date. This expedient will be applied as a substitute for the measurement of impairment for the related right-of-use assets. Impairment testing will be applied going forward.

Exclusion of initial direct costs from the measurement of the right-to-use asset at the date of initial recognition

A new classification in the income statement will be made. Under IFRS 16, as a lessee, the finance cost is reported under finance costs while under operating leases they were embedded in the lease expenses, either as costs of sales or operating expenses.
The timing of the cash flows will not be impacted. The reported amortization of lease liabilities will, however, be reported as from effective date as financing cash flows and not operating cash flows as prior to 2019.

Estimated opening balance sheet impact of IFRS 16 (discounted)

	£000
Right-of-use assets	20,982
Impairment provision reclassification	(2,976)
Lease liabilities, current	(7,783)
Lease liabilities, non-current	(15,796)

The estimated right-of-use assets of £21.0m would be presented in PP&E as an increase. This will increase the total asset value by 4.8%. The previous impairment provisions for real estate have been reclassified as right-of-use asset allowances. There is no impact on the income statement.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1 Accounting policies (continued)

Statement of cash flows

The statement of cash flow is prepared in accordance with the indirect method. Cash and cash equivalents consist of cash, bank, and short-term investments that are highly liquid monetary financial instruments with a remaining maturity of three months or less at the date of acquisition.

Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue recognition

Revenue primarily represents the value of goods and services supplied to customers during the period inclusive of trade discounts and rebates, and excluding VAT. Revenue also includes transactions with group companies ranging from supply of goods, services and cost recharges. Revenue is recognised with reference to all significant contractual terms when the product or service has been delivered, when the revenue amount is fixed or determinable and when collection is reasonably assured. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognised.

Intangible assets

Intangible assets comprise acquired intangible assets related to business combinations, such as patents, customer relations, trademarks and software. At initial recognition, acquired intangible assets are stated at fair value and subsequent to initial recognition these assets are stated at initially recognised amounts less accumulated amortization and any impairment.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight-line method over their estimated useful lives of ten years.

The Company has not recognised any intangible assets with indefinite useful life.

Impairment tests are performed whenever there is an indication of possible impairment. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Application of after tax amounts in calculation, both in relation to cash flows and discount rate is applied for calculating discount rate include a tax component. The after tax discounting, applied by the Company is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts and if the recoverable amount is higher than the carrying value. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortization, which would have been reported if no impairment loss had been recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation and any impairment charges are included in Administration and selling expenses. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, at the following annual rate:

Leasehold buildings	- Term of lease
Plant and machinery	- 2 to 10 years
Software development costs	- 3 to 4 years

Assets under construction - All directly attributable costs necessary to bring the asset to its required working condition are capitalised. These may include both internal and external costs. When the constructed asset is completed and put into use, accumulated 'asset under construction' costs are capitalised and depreciated within their respective categories.

The assets residual values and useful lives are reviewed and adjusted as appropriate at the end of each reporting period. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains and losses on disposals are determined by comparing the proceeds less cost to sell with the carrying amount and are recognised within Administration and selling expenses in the income statement.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1 Accounting policies (continued)

Leasing

Rentals under operating leases are recognised in the income statement on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

Financial assets

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the settlement date.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognised if any rights and obligations are created or retained in the transfer.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates.

Financial assets at fair value through profit and loss

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Derivatives are presented in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent with the transaction.

Loans and receivables

Receivables are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer as well as amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectability of the receivables is assessed for purposes of initial revenue recognition.

Impairment

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

Financial liabilities

Financial liabilities are recognised when the Company becomes bound to the contractual obligations of the instrument. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivatives at fair value through profit and loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent of the transaction.

Inventories

Inventories are measured at the lower of cost and net realisable value, the cost is determined under a weighted average basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

Contract work in progress includes amounts related to delivery type contracts and service contracts with ongoing work in progress.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1 Accounting policies (continued)

Income taxes

Income taxes in the financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity or OCI. For those items, the related income tax is also reported directly in equity or OCI. A current tax liability or asset is recognised for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognised for temporary differences between the book values of assets and liabilities and their tax values and for tax loss carry forwards. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carry forwards can be utilised. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or when it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognised in the income statement, unless it relates to a temporary difference earlier recognised directly in equity or OCI, in which case the adjustment is also recognised in equity or OCI.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization.

Provisions

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to restructuring, customer projects and other obligations and claims or obligations as a result of patent infringement and other litigations.

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Certain present obligations are not recognised as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities.

Pensions

Pensions are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company's only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognised as expenses during the period when the employee provides service. Under a defined benefit plan, it is the Company's obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The Company operates two defined benefit pension schemes and a defined contribution pension scheme for its employees. The assets of the schemes are held separately from those of the Company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

The pension scheme asset is recognised in full on the balance sheet. The deferred tax liability relating to a benefit asset is recorded separately in provisions, as a deferred tax liability.

Increases in the present value of the scheme liabilities expected to arise from employee service in the period are charged to operating profit. The expected return on scheme assets less the increase in the present value of scheme liabilities arising from the passage of time are included within net finance charges. Actuarial gains and losses are recognised in OCI in the period in which they occur.

Critical accounting estimates and judgements

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

Revenue recognition

Estimates are necessary in evaluation of contractual performance and estimated total contract costs for assessing whether any loss provisions are to be made or if customers will reach conditional purchase volumes triggering contractual discounts to be given.

Parts of the Company's sales are generated from large and complex customer contracts. Managerial judgment is applied regarding, among other aspects, conformance with acceptance criteria and if transfer of risks and rewards to the buyer has taken place to determine if revenue and costs should be recognised in the current period, degree of completion and the customer credit standing to assess whether payment is likely or not to justify revenue recognition.

Trade and customer finance receivable

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Credit risks for outstanding customer finance credits are regularly assessed as well, and allowances are recorded for estimated losses.

Inventory valuation

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made.

Deferred taxes

Deferred tax assets are recognised for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes and for tax loss carry-forwards. The valuation of tax loss carry-forwards, deferred tax assets and the Company's ability to utilise tax losses is based upon management's estimates of future taxable income in different tax jurisdictions.

Accounting for income, value added and other taxes

Accounting for these items is based upon evaluation of income, value added and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgments regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

Acquired intellectual property rights and other intangible assets

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition impairment testing is performed whenever there is an indication of impairment, except for goodwill for which impairment testing is performed at least once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. One source of uncertainty related to future cash flows is long-term movements in exchange rates.

Provisions

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to restructuring, onerous lease contracts, customer projects and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer finance guarantees

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Pensions

Accounting for the costs of defined benefit pension plans is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company's pension plans. Expected returns on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns.

Notes to the financial statements (continued)
For the year ended 31 December 2018

2 Revenue

All revenue is derived from the main activity of the company. An analysis of revenue by geographical market is given below, based on the region in which the order is received:

	2018 £000	2017 £000
UK	412,634	372,189
Rest of Europe	19,740	31,847
Other	-	92
	432,374	404,128

During the year three customers, from the UK geographical market, individually contributed to more than 10% of the company's total revenue. The total value of revenue derived from these three customers amounted to £316m (2017: three customers; £360m).

All revenue is derived from the main activity of the company. An analysis of revenue by category is given below, based on the commodity in which the order is received:

	2018 £000	2017 £000
Internal cost recovery	27,678	34,853
External sales:		
Customer support	305,315	263,578
Hardware	48,102	29,389
Software	51,279	76,308
	432,374	404,128

Assets and liabilities related to contracts with customers

	2018 £000	2017 £000
Contract assets	18,574	21,659
Contract liabilities	33,127	57,528

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

Revenue recognised in the period

	£000
Revenue recognised in the year related to the opening contract liability balance	54,031

Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from contracts:

	2018 £000	2017 £000
Unsatisfied long-term contracts	326,669	500,433

Management expects that 90% of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue during the next reporting period. The remaining 10% will be recognised in the 2020 financial year or later.

3 Operating profit

This is stated after charging:

		2018 £000	2017 £000
Depreciation of owned fixed assets		3,036	3,058
Operating lease rentals	- plant and machinery	3,040	3,426
	- other	10,795	5,423
Auditors' remuneration - for audit of the Company's and parent financial statements		194	191

Notes to the financial statements (continued)
For the year ended 31 December 2018

4 Staff costs

	2018 £000	2017 £000
Wages and salaries	103,315	141,860
Social security costs	12,594	14,605
Other pension costs:		
Defined benefit pension costs	1,078	827
Defined contribution pension costs	8,307	9,998
	125,294	167,290

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

	2018 No.	2017 No.
Services	1,292	1,532
Research & development	10	9
Sales and marketing	83	83
General & administration	136	164
	1,521	1,788

See note 18 for disclosure on directors' emoluments and the number of directors who are accruing benefits under the defined benefit scheme.

5 Taxation

a. Tax expense

	2018 £000	2017 £000
Current tax:		
UK current income tax	2,249	658
Adjustments in respect of prior years	248	-
Total current tax	2,497	658
Deferred tax:		
Origination and reversal of temporary differences	(1,925)	(1,655)
Pension	1,661	90
Adjustments in respect of prior years	528	(1,137)
Total deferred tax	265	(2,703)
Tax on profit	2,761	(2,045)

The year end balance for current income tax is as follows:

	2018 £000	2017 £000
Current income tax receivable/(payable)	537	-

Notes to the financial statements (continued)
For the year ended 31 December 2018

5 Tax expense (continued)
b. Factors affecting tax charge for year

The UK standard rate of tax is 19.00% (2017: 20.00%). The actual tax charge for the current and previous year varies from the standard rate for reasons set out in the following reconciliation:

	2018 £000	2017 £000
Profit before taxation	**13,103**	12,717
Profit at standard rate 19.00% (2016: 20.00%)	**2,490**	2,448
Effects of:		
Expenses not deductible for tax purposes	**352**	55
Pension timing differences recognised through OCI	**(856)**	(4,069)
Witholding taxes, non-claimable		658
Adjustments in respect of prior years	**776**	(1,137)
Total tax expense for the year	**2,761**	(2,045)

c. Deferred tax liability

A deferred tax liability of £29.7m (2017: £23.3m), was recognised in the books at 31 December 2018. This amount represents the full potential deferred liability asset and is repayable in more than one year.

	2018 £000	2017 £000
Depreciation in excess of capital allowances	**6,156**	5,299
Pensions	**(37,192)**	(30,188)
Other temporary differences	**1,258**	1,570
Total deferred tax liability	**(29,778)**	(23,318)

	2018 £000	2017 £000
Amounts recognised in the financial statements		
At 1 January	**(23,318)**	(5,525)
Adjustments	**1,395**	-
Charge to income statement	**(265)**	2,703
Recognised in OCI	**(7,590)**	(20,496)
At 31 December	**(29,778)**	(23,318)

Deferred tax assets are only recognised where the Company expects to be able to generate corresponding taxable income in the future to benefit from tax reductions. The above amounts represent the full potential deferred tax asset and is recoverable in more than one year.

Notes to the financial statements (continued)
For the year ended 31 December 2018

5 Tax expense (continued)
d. Factors affecting current and future tax charges

Finance Act 2015 was substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Tax effects reported in OCI represent tax on actuarial losses in respect of pensions.

6 Finance income / (expense)

Finance income:	**2018** **£000**	2017 £000
Foreign exchange gains	-	3,577
	-	3,577

Finance expense:	**2018** **£000**	2017 £000
Interest due to group companies	**(5,795)**	(6,131)
Finance expenses	**(96)**	(215)
	(6,038)	(6,346)

On 16 June 2016 a long term loan agreement from the ultimate parent undertaking and controlling party Telefonaktiebolaget LM Ericsson was signed by the company. The loan is repayable in full (including any accrued interests) in 5 years time from the date of disbursement, with interest being charged quarterly calculated at LIBOR plus agreed markup, and payable on the last day of the quarter.

7 Property, plant and equipment

	Leasehold buildings £000	**Plant & machinery £000**	**Assets under construction £000**	**Total £000**
Cost:				
At 31 December 2017	8,416	15,022	-	23,438
Additions	3,994	586	45	4,625
Disposals	(11,458)	(1,862)	-	(13,320)
At 31 December 2018	**952**	**13,746**	**45**	**14,743**
Accumulated depreciation:				
At 31 December 2017	4,908	11,325	-	16,233
Provided during the year	1,425	1,611	-	3,036
Disposals	(9,307)	(1,659)	-	(10,966)
At 31 December 2018	**(2,974)**	**11,277**	**-**	**8,303**
Net book value:				
At 31 December 2018	**3,926**	**2,469**	**45**	**6,440**
At 31 December 2017	3,508	3,697	-	7,205

Assets under construction relate to the capitalised costs of establishing a secure areas within existing premises occupied by Ericsson Limited.

8 Inventories

	2018 **£000**	2017 £000
Work in process and goods in transit	**37,415**	38,137
Finished goods and goods for resale	**5,367**	4,871
	42,782	43,008

In 2018, a total of £72.1m (2017: £63.6m) of inventories was included in cost of sales as an expense. This includes an amount of £0.35m (2017: £0.45m) which represents the allowances for obsolescence.

Notes to the financial statements (continued)
For the year ended 31 December 2018

9 Trade and other receivables

	2018 £000	Restated 2017 £000
Trade receivables	**73,638**	88,172
Allowances for impairment	**(209)**	-
Net trade receivables	**73,429**	88,172
Amounts owed by group undertakings	**83,551**	28,361
Other receivable - R&D tax credit	**(1,349)**	1,572
Prepayments	**3,649**	1,695
	159,280	119,800

Included within the amounts owed by group undertakings are loan balances amounting to £4.7m (2017: £4.7m) which are unsecured, have no fixed repayment date, and on which no interest is earned. All other inter-company balances are due to normal trade and are receivable on group standard payment terms (30 days net) with no extended credit.

Trade receivables are primarily denominated in sterling, with £0.48m being denominated in US dollars/US dollar linked currencies (2017: £1.12m) and £4.27 being denominated in Euros (2017: £nil). The book value of trade and other receivables is consistent with fair value in the current and prior year.

Movement in allowances for impairment

	2018 £000	2017 £000
Balance at 1 January	**-**	-
Additions	**(209)**	-
Utilisation	**-**	-
Reversal of excess amounts	**-**	-
Balance at 31 December	**(209)**	-

Aging analysis as at 31 December 2018

	Amount	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals: less than 90 days	Of which past due in the following time intervals: 90 days or more	Of which past due and impaired in the following time intervals: less than 90 days	Of which past due and impaired in the following time intervals: 90 days or more
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	73,638	67,363		4,729	1,546	-	-
Allowances for impairment	(209)					-	(209)
Net trade receivables	**73,429**	**67,363**	**-**	**4,729**	**1,546**	**-**	**(209)**

Aging analysis as at 31 December 2017 (Restated)

	Amount	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals: less than 90 days	Of which past due in the following time intervals: 90 days or more	Of which past due and impaired in the following time intervals: less than 90 days	Of which past due and impaired in the following time intervals: 90 days or more
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	88,172	82,329	-	5,647	196	-	-
Allowances for impairment	-	-	-	-	-	-	-
Net trade receivables	**88,172**	**82,329**	**-**	**5,647**	**196**	**-**	**-**

Notes to the financial statements (continued)
For the year ended 31 December 2018

9 Trade and other receivables (continued)

Credit risk in trade receivables

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk.

Credit risk in trade receivables is governed by a policy applicable for all legal entities in Ericsson. The purpose of the policy is to:

- Avoid credit losses through establishing internal standard credit approval routines in all Ericsson legal entities
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers
- Ensure efficient credit management within the Company and thereby improve Days Sales Outstanding and Cash Flow
- Ensure payment terms are commercially justifiable
- Define escalation path and approval process for payment terms and customer credit limits.

The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to Ericsson are mitigated.

Trade receivables amounted to £73.4m (2017: £88.2m). Provisions for expected losses are regularly assessed and amounted to £0.2m (2017: £nil). Ericsson's nominal credit losses have, however, historically been low. The five largest customers are the main telecom operators in the UK and represent 78.4% (2017: 93.1%) of the total trade receivables.

10 Cash and cash equivalents

	2018	2017
	£000	£000
Cash in hand and at bank	**23,560**	69,869
	23,560	69,869

11 Trade and other payables

		Restated
	2018	2017
	£000	£000
Trade creditors	**32,414**	20,601
Amounts owed to group undertakings	**81,065**	90,289
Derivatives	**185**	82
Taxation and social security	**13,975**	17,837
Accruals and deferred income	**65,210**	49,544
	192,849	178,353

On 16 June 2016 a long term loan agreement from the ultimate parent undertaking and controlling party Telefonaktiebolaget LM Ericsson was signed by the company. This loan amounted to £70m and was used to clear the outstanding overdraft within the cash pooling facility at that time. The loan is repayable in full (including any accrued interests) in 5 years time from the date of disbursement, with interest being charged quarterly calculated at LIBOR plus agreed markup, and payable on the last day of the quarter.

All other inter-company balances are payable on group standard repayment terms (30 days net) with no extended credit.

12 Provisions

	Onerous customer contracts	**Deferred Tax**	**Onerous property leases**	**Restructuring**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 31 December 2017	13,033	23,318	11,778	11,804	59,933
Additions	30,000	25,148	1,043	148	56,339
Reversals	-	-	-	(1,401)	(1,401)
Discount unwinding	-	-	(215)	-	(215)
Utilisation	(13,033)	(18,690)	(9,591)	(8,418)	(49,732)
At 31 December 2018	**30,000**	**29,776**	**3,015**	**2,133**	**64,924**
Of which:					
Non-current liabilities	-	29,776	1,069	-	30,845
Current liabilities	30,000	-	1,946	2,133	34,079

Notes to the financial statements (continued)
For the year ended 31 December 2018

12 Provisions (continued)

Onerous contract provision

Onerous contract provision of £30m (2017: £13m) relates to loss on customer contracts where the expected total revenues will not be sufficient to cover the expected total contract costs. The expected total contract costs are regularly updated to ensure it reflects the latest management forecast of costs to complete.

Onerous property leases provision

At 31 December 2018 the provision of £3m (2017: £11.8m) represents the residual lease commitments, including other outgoings for the remaining period of the leases, which ranges between 1 and 5 years discounted using a rate of 1.39% p.a. This provision is calculated net of estimated rental income expected from sub-tenants and includes the exercise of break clauses where these have been exercised or where it is probable that the break will be exercised. £2m of this provision is considered current (2017: £8.2m), £1.1m is non-current (2017: £3.5m).

Restructuring provision

At 31 December 2018 the provision of £2.1m (2017: £11.8m) represents the restructuring provision for severance and other termination costs provided for in relation to the continuing cost reduction measures undertaken by the company. The overall provision is expected to be realised by the end of 2019.

13 Share capital

Authorised

	2018 £000	2017 £000
31,000,000 ordinary shares of £1 each	31,000	31,000
139,000,000 Redeemable ordinary shares of £1 each	139,000	139,000
	170,000	170,000

Allotted, called up and fully paid

	2018 £000	2017 £000
30,600,000 ordinary shares of £1 each	30,600	30,600
22,000,000 Redeemable ordinary shares of £1 each	22,000	22,000
	52,600	52,600

The redeemable ordinary shares can be redeemed at par by the company giving notice in writing of not less than one month. Both classes of shares of the company rank parri passu in all respects.

14 Reconciliation of shareholders' funds and movements on retained earnings

	Share capital £000	#N/A £000	Total equity £000
At 31 December 2016	52,600	(8,778)	43,822
Profit for the year	-	14,762	14,762
Actuarial profit on pension	-	79,195	79,195
Related deferred tax	-	(20,496)	(20,496)
At 31 December 2017	52,600	64,683	117,283
Profit for the year	-	10,342	10,342
Actuarial profit on pension	-	28,120	28,120
Related deferred tax	-	(7,590)	(7,590)
At 31 December 2018	**52,600**	**95,555**	**148,155**

Notes to the financial statements (continued)
For the year ended 31 December 2018

15 Operating lease commitments

As at 31 December 2018, future minimum lease payment obligations relating to non-cancellable operating leases were distributed as follows:

	Land & Buildings £000	Other £000
2019	6,251	1,532
2020	6,098	1,282
2021	3,552	1,248
2022	2,052	963
2023	2,052	77
	28,926	5,102

Leases of buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all maintenance and repair costs as well as part of the insurance costs.

Other leases relate to rental charges and maintenance cost of leased vehicles operated by the company.

16 Financial risk management and financial instruments

The Company's capital and financial risk management policies are governed at the Ericsson Group level.

Capital Management

Ericsson Group defines its managed capital as the total of Company's equity, therefore uses Equity / Total Assets ratio as a measure of determining the appropriate capital structure of its group companies.

The capital structure is managed by balancing equity, intercompany loans and liquidity in such as way that the Company secures funding of its operations in a cost effective way for the Ericsson Group.

The Company achieves its funding needs solely through Ericsson Group Treasury and does not negotiate any external borrowing independently. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

The Company strives to finance growth, normal capital expenditures and dividends to Ericsson Group by generating sufficient positive cash flows from operating activities.

Capital objectives information:

	2018 £000	2017 £000
Equity	148,155	117,283
Total assets	439,055	413,098
Equity ratio	33.7%	28.4%
Cash flow from operating activities	(35,646)	9,033

Financial Management

The Company's financial risk management policy is primarily driven by Ericsson Group Treasury. The principal role is to ensure that appropriate financing is in place to manage the Company's liquidity as well as financial assets and liabilities, and to control financial risks exposures in a manner consistent with underlying business risks and financial policies. The Company does not undertake any local hedging activities.

Foreign exchange risk

The Company is exposed to foreign exchange risk in the normal course of business for transactions not denominated in GBP Sterling. For intercompany transactions, Ericsson Group Treasury seeks to minimize such risk by dictating the currency of trade between the Company and its group undertakings.

Although the Company does not undertake any local hedging activities, the Ericsson Group policy is to hedge the transaction exposure in its subsidiaries' balance sheet (i.e. trade receivables and payables) through offsetting derivatives. Therefore the Company is obliged to enter into such offsetting derivatives transaction with counterparty Ericsson Group Treasury at the end of each month. The value of such outstanding derivatives, all maturing within 30 days, at year end was £Nil receivable (2016: £Nil).

Interest rate risk

The Company is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position at year end was £23.6m (2017: £69.9m net cash). There were no interest bearing liabilities at year end (2017: £nil)

Cash or overdraft balances are managed through a cash pooling arrangement, subject to floating rates applicable to the cash pooling arrangement with the Ericsson Group Treasury. No assets or liabilities are subject to fixed interest rate exposure.

The Company policy is to avoid a significant fixed rate exposure in its assets and liabilities.

Notes to the financial statements (continued)
For the year ended 31 December 2018

16 Financial risk management and financial instruments (continued)

Price risk

The Company is exposed to low price risks due to prices being regulated at a Group level. The Company receives market support and has transfer pricing arrangements in place with the Group company.

Liquidity risk

Liquidity risk is that the Company is unable to meet its short-term payment obligations due to insufficient funds or illiquid cash reserve. The Company minimizes the liquidity risk by maintaining a sufficient net cash position and having Ericsson Group Treasury loan facilities in place to meet potential funding needs.

During 2018, net cash balance decreased from £69.9m net cash to £23.6m net cash.

The entire cash balance is held with reputable financial institutions.

Carrying amounts of financial instruments

	Trade receivables & Intercompany (note 9)	Derivatives	Trade payables & Intercompany (note 11)	2018	2017
	£000	£000	£000	£000	£000
Loans and receivables	156,980	-	-	156,980	130,380
Assets/(liabilities) at fair value through profit or loss	-	(185)	-	(185)	(162)
Financial liabilities at amortised cost	-	-	(113,479)	(113,479)	(110,412)
Total	156,980	(185)	(113,479)	43,316	19,806

17 Pension commitments

The company operates two final salary defined pension schemes, the Ericsson Employee Benefits Scheme ("EEBS") and the Ericsson Marconi Pension Plan ("EMPP"). Both schemes are closed to new entrants and to future accruals for existing members. The assets for both schemes are held separately from those of the Company in independently administered funds. The trustee boards of each of the schemes are composed of representatives from both employers and plan members. The trustee boards of the schemes are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The trustee boards of the schemes are responsible for the investment policy with regard to the assets of the fund.

The pension asset comprises:

	2018	2017
	£000	£000
Defined benefit scheme	188,420	151,557
	188,420	151,557

There are no amounts of unpaid contributions at the year end relating to the defined benefit scheme or the defined contribution scheme as all payments were made within the month due.

Administration costs incurred to administer the pension plan participants' database and actuarial valuation costs have been expensed through the income statement. Administration costs incurred for directly managing the plan assets such as fees paid to the bank for asset management services and salaries of the management board who manage the trust are included in the return in plan assets.

The schemes typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and inflation. In addition the defined contribution scheme with a defined benefit underpin has annuity risks.

Investment risk - The present value of each scheme's liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on the scheme asset is below this rate, it will create a scheme deficit. Due to the long-term nature of the scheme liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the scheme assets should be invested in equity securities and real estate to leverage the return generated by the scheme. As the defined contribution scheme with the defined benefit underpin is primarily a defined contribution arrangement, the board of this scheme considers it appropriate to invest the majority of the scheme's assets in equity funds.

Interest risk - A decrease in bond interest rate will increase the liabilities; however, for the defined benefit scheme, this will be partially offset by an increase in the return on the plan's debt investments.

Notes to the financial statements (continued)
For the year ended 31 December 2018

17 Pension commitments (continued)

Defined benefit pension scheme (continued)

Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the scheme's liability.

Inflation risk - The present value of the defined benefit liability is linked to inflation, and higher inflation will lead to higher liabilities. The majority of the scheme assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also reduce the surplus.

Defined benefit pension schemes

Triennial actuarial valuations were carried out at 31 December 2016 and 1 April 2017 for EMPP and EEBS respectively. The valuation has been updated at 31 December 2018 by a qualified and independent actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at market value.

During the year the company paid cash contributions of £9.6m for the EEBS scheme and £2.3m for the EMPP scheme, in accordance with the Schedule of Contributions agreed with the pensions trustees during the year. These contributions will continue as per the agreed schedule of contributions for the forthcoming financial year.

The major assumptions used for the actuarial valuation were:

	2018	2017
	%	%
Rate of increase in pensions in payment	**3.00**	3.00
Discount rate	**2.95**	2.55
Inflation assumptions (RPI)	**3.20**	3.20
Inflation assumptions (CPI)	**2.20**	2.20

For the purpose of 31 December 2018 actuarial valuation the discount rate is based on high quality corporate bonds rated AA by at least one of two principle credit rating agencies and which have an outstanding debt issue of at least £50m. This is consistent with the prior year.

The mortality assumptions used for the 2018 year end are the S2PA tables with CMI 2017 improvements and a 1.5% long term trend. Average life expectancy for mortality tables used to determine the defined benefit obligation at 31 December were:

	2018		2017	
	Male	**Female**	Male	Female
Aged 65 now; average life expectancy	**22.1**	**24.1**	22.3	24.1
Aged 45 now; average life expectancy on retirement at age 65	**23.8**	**25.9**	24	26

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	2018		2017	
	%	**£000**	%	£000
Equity investments categorised by risk:				
- Unquoted		**49,626**		49,432
- Quoted		**70,955**		141,509
Subtotal	**11.9%**	**120,581**	17.9%	190,941
Bonds				
- Government (fixed linked)		**215,997**		204,197
- Government (index linked)		**503,932**		488,216
- Corporate bonds (investment grade)		**31,798**		71,809
Subtotal	**74.4%**	**751,727**	71.8%	764,222
Property	**0.0%**	**-**	0.9%	9,200
Other	**4.4%**	**44,958**	3.8%	40,546
Cash and cash equivalents categorised by risk:				
- Quoted		**93,694**		59,090
- Unquoted		**-**		1,007
	9.3%	**93,694**	5.6%	60,097
Total market value of assets	**100.0%**	**1,010,960**	100.0%	1,065,006
Present value of scheme liabilities		**(822,540)**		(913,449)
Net pension asset		**188,420**		151,557

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair value of properties are not based on quoted market prices in active markets.

Notes to the financial statements (continued)
For the year ended 31 December 2018

17 Pension commitments (continued)

Changes in the present value of benefit obligation:	2018 £000	2017 £000
Opening benefit obligation	**913,449**	980,548
Interest cost	**23,137**	26,325
Past service cost	**6,035**	-
Benefits paid	**(41,641)**	(36,347)
Actuarial gains	**(78,440)**	(57,077)
Closing benefit obligation	**822,540**	913,449

Changes in the value of scheme assets:	2018 £000	2017 £000
Opening value of scheme assets	**1,065,006**	1,031,023
Interest income	**27,143**	27,626
Employer contributions	**11,850**	21,413
Benefits paid	**(41,641)**	(36,347)
Expenses	**(1,078)**	(827)
Actuarial (losses) / gains	**(50,320)**	22,118
Value of scheme assets at end of year	**1,010,960**	1,065,006
Surplus recognised	**188,420**	151,557

Defined benefit pension scheme (continued)

	2018 £000	2017 £000
Actual return on plan assets	**(23,177)**	49,744

Analysis of the amount charged to operating profit:

	2018 £000	2017 £000
Administration expenses	**(1,078)**	(827)
Net charged to operating profit	**(1,078)**	(827)

Analysis of the amount charged to net finance charges:

	2018 £000	2017 £000
Interest income on pension scheme assets	**27,143**	27,626
Interest expense on pension scheme liabilities	**(23,137)**	(26,325)
Net interest income	**4,006**	1,301

Analysis of the actuarial gains recognised in the statement of comprehensive income:

	2018 £000	2017 £000
Actual return less interest income on pension scheme assets	**(50,320)**	22,118
Experience losses arising on the scheme liabilities	**(2,478)**	16,117
Changes in demographic assumptions	**1,065**	30,228
Changes in financial assumptions underlying the present value of scheme liabilities	**79,853**	10,732
	28,120	79,195

Notes to the financial statements (continued)
For the year ended 31 December 2018

17 Pension commitments (continued)

Movement in scheme surplus during the year:

	2018 £000	2017 £000
Pension scheme surplus at start of year	151,557	50,476
Administration expenses	(1,078)	(827)
Past Service Costs	(6,035)	-
Contributions	11,850	21,412
Net finance income	4,006	1,301
Actuarial gains	28,120	79,195
Pension scheme surplus at end of year	188,420	151,557

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, long-term expected inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting year, while holding all other assumptions constant.

- If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by £89m (increase by £103.3m).
- If the inflation rates are 0.5% higher (lower), the defined benefit obligation would increase by £83.4m (decrease by £69.4m).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by £29.1m (decrease by £28.9m).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Defined benefit pension scheme (continued)

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting year, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The plan trustees and the Company regularly review the plan's investment strategy to ensure that it remains appropriate for risk and return profiles.

As the plan is closed to future accrual, employees pay no further contributions to the plan. The Company's funding requirements depend on the level of any deficit in the plan and are based on the local actuarial measurement framework.

The average duration of the defined benefit obligation at 31 December 2018 is 23 years (2017: 25 years).

The Company expects to make a contribution of £11.9m to the defined benefit schemes during the next financial year.

A deed of amendment was completed by Ericsson Television Limited to flexibly apportion the assets and obligations from the two defined benefit pension schemes it held to Ericsson Limited on 31 January 2019. The value of the schemes liabilities at transfer amounted to £2.5m, which was settled via a lump sum cash payment of the same amount on transfer.

18 Related parties

Parent and ultimate controlling party

The Company's immediate parent undertaking is Ericsson (Holdings) Limited.

The ultimate parent undertaking and controlling party is Telefonaktiebolaget LM Ericsson, a Company incorporated in Sweden, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of Telefonaktiebolaget LM Ericsson may be obtained from www.ericsson.com.

Transactions with key management personnel

Key management personnel compensation comprised of the directors noted in the Directors report.

	2018 £000	2017 £000
Salaries and short-term employee benefits	527	430
Company contributions paid to post-employment benefits	8	7
	535	437

	2018 No.	2017 No.
Members of post-employment benefits schemes	2	1

	2018 £000	2017 £000
Highest paid director		
Emoluments and amounts receivable under incentive schemes	410	324

Notes to the financial statements (continued)
For the year ended 31 December 2018

18 Related parties (continued)

Other related party transactions

Related party transactions during the year are as follows:

	2018	2017
	£000	£000
Immediate & ultimate parent		
- Interest on Group loan facility	5,693	5,473
Fellow subsidiaries		
- Sales	19,858	31,964
- Purchases	(292)	(5,245)

Related party balances as at the year end are as follows:

	2018	2017
	£000	£000
Immediate & ultimate parent		
- Receivables	4,717	5,904
- Liabilities	70,145	70,260
Fellow subsidiaries		
- Receivables	78,834	22,457
- Liabilities	10,920	20,029

19 Change in account policies

Transition to IFRS 15

This note explains the impact of the adoption of IFRS 15 on the company's financial statements.

IFRS 15 replaced guidance in IAS 18 and IAS 11. This standard establishes a new principle-based model of recognizing revenue from customer contracts.

The adoption of IFRS 15 from 1 January 2018 resulted in changes in accounting policies and required amounts to be represented separately in the balance sheet. The new accounting policies are set out in note 1.

In the prior year the balance sheet showed contract assets and contract liabilities within Trade and other receivables, and trade and other payables respectively;

		of which			
	Prior year	Contract Asset	Contract liability	Netting Adjustment	Represented
	31.12.2017	Pre Netting	Pre Netting		31.12.2017
	£'000	£'000	£'000	£'000	£'000
Trade and other receivables	141,459	(21,659)	-	-	119,800
Contract assets	-	21,659	-	-	21,659
Trade and other payables	235,881	-	(57,528)	-	178,353
Contract liabilities	-	-	57,528	-	57,528

Transition to IFRS 9

This note explains the impact of the adoption of IFRS 9 on the company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 1. Comparative figures have not been restated

The total impact on the group's retained earnings as at 1 January 2018 is as follows:

	£'000
Closing retained earnings 31 December 2017 - IAS 39	-
Decrease in provision for debt investments at amortised cost	-
Decrease in deferred tax asset	-
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	-
Opening retained earnings 1 January 2018 - IFRS 9	-