REGISTERED NUMBER: OC391023

ANNUAL REPORT AND FINANCIAL STATEMEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

FOR

HSL (FM) LLP

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MANAGEMENT BOARD AND ADVISERS
FOR THE YEAR ENDED 30 JUNE 2018

MEMBERS:	Health Services Laboratories LLP HSL (Nominee) Limited
REGISTERED OFFICE:	The Halo Building 1 Mabledon Place London WC1H 9AX
REGISTERED NUMBER:	OC391023
INDEPENDENT AUDITORS:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 10 Bricket Road St Albans Herts AL1 3JX
BANKERS:	The Royal Bank of Scotland Level 8 280 Bishopsgate London EC2M 4RB

MEMBERS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

The Members present their report and audited financial statements of the LLP for the year ending 30 June 2018. The partnership commenced trading on 1 April 2015.

PRINCIPAL ACTIVITIES

The principal activity of the partnership is the provision of managed pathology laboratory facilities. The LLP provides managed laboratory facilities for use by pathology departments and clinical organisations including NHS Trusts. By agreement customers may direct their own or third party analytical workforces to operate in our facilities.

On 1 November 2017 the LLP changed its registered address from 60 Whitfield Street, London, W1T 4EU to the location of the new Core Laboratory at The Halo Building, 1 Mabledon Place, London, WC1H 9AX.

REVIEW OF BUSINESS

The results for the year show a profit for the financial year available for discretionary division among Members of £2,355,000 (2017: £9,637,000) and revenue of £63,403,000 (2017: £53,314,000). The LLP's income statement is set out on page 9. The LLP provides laboratory facilities to a number of NHS Trusts and other National Health Service bodies.

During the year the Group commenced the provision of pathology services and laboratory facilities to Barnet & Chase Farm Hospitals. This service transitioned smoothly to the HSL Group on 1 October 2017 and a process of investment and transformation commenced. It is expected that the refurbished Barnet Hospital laboratory will be complete and operational during Autumn 2018.

On 1 May 2018 the HSL Group acquired the business and assets of an immunohistochemistry laboratory. This new service will enable the Group to widen the selection of tests offered to its existing and potential customers.

POST BALANCE SHEET EVENT

After year end the finance, laboratory and quality database which formed part of the intangible asset, business intelligence, was sold by Health Services Laboratories LLP to HSL (FM) LLP at the acquisition fair value of £275,000.

FUTURE OUTLOOK

We aim to provide state of the art pathology laboratory facilities, which deliver substantial efficiencies through economies of scale, leading edge technology, infrastructure and IT.

We believe that we are able to do this most effectively as a partnership organisation within the NHS. We expect to see increasing numbers of NHS Trusts and Commissioners requiring investment in efficient pathology services and we are well placed to meet this need. Our high service levels and the continued application of leading edge technologies are important to our existing customer base and, we believe, will be a factor in delivering new customer contracts.

The NHS has identified the pathology sector as a possible source of efficiencies in the coming years and we welcome this initiative because of our parent organisations' long experience in supporting and transforming public sector laboratory services.

PRINCIPAL RISKS AND UNCERTAINTIES

Pathology is a fast changing discipline; molecular technologies and emerging diagnostic platforms make it more important than ever to ensure that our facilities provide users with access to these new platforms. We work closely with our suppliers and partners to achieve this. The LLP has invested over £30m in our laboratory facilities in the past two years to meet this challenge.

As a provider of laboratory facilities to clinical organisations we are always subject to reputational risk. The organisation invests heavily in quality; both systems and personnel, and we work closely with all the relevant regulatory authorities to minimise our risk exposure in this key area.

MEMBERS' REPORT - continued
FOR THE YEAR ENDED 30 JUNE 2018

FINANCIAL RISK MANAGEMENT

The LLP's operations expose it to a variety of financial risks which include credit risk, exchange rate risk and liquidity risk. Given the size of the LLP, responsibility for monitoring financial risk management lies with the Management Board. The LLP implements rigorous cash flow management processes to manage liquidity risk. The LLP also reviews foreign exchange exposures on an ongoing basis given a proportion of the capital and operational costs of the group are incurred with suppliers from outside the UK. The LLP also has policies that require appropriate credit checks for potential customers and suppliers dependent on the size and type of account.

DESIGNATED MEMBERS

The designated Members of the Limited Liability Partnership ("LLP") who were in office during the year and up to the date of signing the financial statements were:

Health Services Laboratories LLP
HSL (Nominee) Limited

EMPLOYEES

The LLP does not discriminate on the basis of age, gender, race, religion, sexual orientation or any basis other than merit. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the LLP continues and the appropriate training is arranged. It is the policy of the LLP that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the LLP. Communication with all employees continues through employee representation and briefing groups.

The LLP is committed to trading ethically, with zero tolerance for modern slavery (including forced labour or human trafficking in any form), human rights violations and child labour.

We aim to uphold internationally agreed standards of labour, and we expect our suppliers and subcontractors to treat workers fairly, honestly and with respect for their basic human rights and wellbeing.

Over the next 12 months, we are fully reviewing modern slavery risks in our business and supply chain, and renewing our response including providing training, updating policies and procedures, engaging with key suppliers and more.

MEMBERS' REPORT - continued
FOR THE YEAR ENDED 30 JUNE 2018

MEMBERS' PROFIT SHARE

Members are remunerated solely out of the profits of the LLP. Final allocation of profits to Members is made by the Management Board as per the Limited Liability Partnership Agreement dated 30 July 2014. The allocation of profits to those who were Members during the financial year is discretionary and needs to be approved by the Management Board within 2 months after year-end.

Members' capital contributions are determined by the Management Board having regard, inter alia, to the working capital needs of the business. In the event of winding up all creditors will be settled and if any surplus remains and this relates to undivided profits of the LLP in that financial year this will be divided amongst the Members. Any remaining balance will be paid to the Members in proportion to their Capital Interests.

Other Members Interests consists of fixed assets that were contributed by each of the Members to HSL (FM) LLP on 1 April 2015. Depreciation for these assets is offset against Other Members Interests and does not form part of Members Capital.

STATEMENT OF MEMBERS' RESPONSIBILITIES

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

Company law, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the Members to prepare financial statements for each financial year. Under that law the Members have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, as applied to limited liability partnerships, the Members 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 limited liability partnership will continue in business.

STATEMENT OF MEMBERS' RESPONSIBILITIES - continued

The Members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations.

The Members are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

The designated Members who held office at the date of approval of this Members' report confirm that, so far as they are each aware, there is no relevant audit information of which the LLP's auditors are unaware; and each designated Member has taken all the steps that they ought to have taken as a designated Member to make themselves' aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

THE FINANCIAL STATEMENTS ON PAGES 9 TO 27 WERE APPROVED BY THE MEMBERS AND SIGNED ON THEIR BEHALF ON 23 OCTOBER 2018:

....
M Dinan – On behalf of Health Services Laboratories LLP
Designated Member on behalf of HSL (FM) LLP

....
T Jaggard – On behalf of Health Services Laboratories LLP
Designated Member on behalf of HSL (FM) LLP

....
D Byrne – On behalf of HSL (Nominee) Limited
Designated Member on behalf of HSL (FM) LLP

Report on the financial statements

Our opinion

In our opinion, HSL (FM) LLP's financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 June 2018; the income statement and statement of comprehensive income and 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 limited liability partnership 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

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

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership'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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the limited liability partnership's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report and Financial Statements other than the financial statements and our auditors' report thereon. The members 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, 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.

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements
As explained more fully in the Statement of Members' Responsibilities set out on page 4, the members 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 members 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 members are responsible for assessing the limited liability partnership'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 members either intend to liquidate the limited liability partnership 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 opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, 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 as applicable to limited liability partnerships 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 limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andrew Hodgekins

Andrew Hodgekins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
23 October 2018

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 £'000	2017 £'000
REVENUE	4	**63,403**	53,314
Cost of sales		**(46,233)**	(33,796)
GROSS PROFIT		**17,170**	19,518
Administrative expenses		**(14,724)**	(9,881)
OPERATING PROFIT		**2,446**	9,637
Finance cost	7	**(91)**	-
OPERATING PROFIT and PROFIT FOR THE FINANCIAL YEAR AVAILABLE FOR DISCRETIONARY DIVISION AMONG MEMBERS	6	**2,355**	9,637
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS	16	**2,355**	9,637

The notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
As at 30 JUNE 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
FIXED ASSETS					
Intangible Assets	9		**484**		271
Property, Plant & Equipment	10		**50,474**		44,588
			50,958		44,859
CURRENT ASSETS					
Inventory	11	**4,471**		3,622	
Trade debtors and other receivables	12	**15,032**		9,147	
Cash and cash equivalents		**3,628**		4,245	
		23,131		17,014	
CREDITORS					
Amounts falling due within one year	13	**(46,085)**		(36,315)	
NET CURRENT LIABILITIES			**(22,954)**		(19,301)
TOTAL ASSETS LESS CURRENT LIABILITIES			**28,004**		25,558
NON CURRENT CREDITORS	14				
Amounts falling due after one year			**(1,766)**		(1,675)
NET ASSETS ATTRIBUTABLE TO MEMBERS OF THE LLP			**26,238**		23,883
REPRESENTED BY:					
Members' capital			**26,238**		23,535
Other Members interests			**-**		348
TOTAL MEMBERS' INTERESTS	16		**26,238**		23,883

The financial statements on pages 9 to 27 were approved by the Members on 23 October 2018 and were signed on its behalf by:

M Dinan – On behalf of Health Services Laboratories LLP
Designated Member on behalf of HSL (FM) LLP

T Jaggard – On behalf of Health Services Laboratories LLP
Designated Member on behalf of HSL (FM) LLP

D Byrne – On behalf of HSL (Nominee) Limited
Designated Member on behalf of HSL (FM) LLP

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Members' capital £'000	Other Members interests £'000	Total Members' interests £'000
Balance at 1 July 2016		12,723	1,523	14,246
Members capital contributions		-	-	-
Total comprehensive income for the year		9,637	-	9,637
Depreciation on assets acquired as part of the business combination		1,175	(1,175)	-
Balance as at 30 June 2017		**23,535**	**348**	**23,883**
Total comprehensive income for the year		2,355	-	2,355
Depreciation on assets acquired as part of the business combination		348	(348)	-
Balance as at 30 June 2018	16	**26,238**	**-**	**26,238**

1. GENERAL INFORMATION

The principal activity of the partnership is the provision of managed pathology laboratory facilities. The LLP provides managed laboratory facilities for use by pathology departments and clinical organisations including NHS Trusts. By agreement customers may direct their own or third party analytical workforces to operate in our facilities.

The LLP is incorporated and domiciled in the UK. The address of its registered office is The Halo Building, 1 Mabledon Place, London, WC1H 9AX.

Basis of preparing the financial statements
The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and in accordance with the Companies Act 2006 as applied to Limited Liability Partnerships and applicable accounting standards in the United Kingdom including the Statement of Recommended Practice "Accounting by Limited Liability Partnerships".

The financial statements have been prepared on a going concern basis under the historical cost convention. The accounting policies have been applied consistently.

The LLP has notified its Members in writing, and they do not object to the disclosure exemptions used by the LLP in these financial statements. FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations.

The preparation of the financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the LLPs accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

(i) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
a) paragraph 79(a)(iv) of IAS 1
b) paragraph 73(e) of IAS 16 Property, Plant & Equipment
c) paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period)

(ii) The following paragraphs of IAS 1, 'Presentation of financial statements':
a) 10(d), (statement of cash flow),
b) 10(f), (statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassified items in its financial statements),
c) 16 (statement of compliance with IFRS),
d) 38B-D (additional comparative information),

(iii) IAS 7, 'Statement of cash flow'

(iv) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)

(v) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)

(vi) IFRS 7 'Financial Instruments: Disclosures'

(vii) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

The Management Board has approved the adoption of this accounting basis.

1. **GENERAL INFORMATION - continued**

New standards, amendments and interpretations adopted
IFRS 7: Statement of cash flows on Disclosure Initiatives is effective for the first time for the current financial year and came into effect for financial years beginning on or after 1 January 2017.

These amendments introduced additional disclosures that would enable the users of the financial statements to evaluate changes in liabilities from financing activities. The amendment was part of the IASB's Disclosure Initiative.

There was no impact on the LLP's accounting when the new standard was adopted as the LLP does not present a cash flow.

New standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after a period from 1 January 2018 to 1 January 2021 and have not been applied in preparing these financial statements.

New standards and interpretations that are effective and are not expected to have an effect on the financial statements of the Group are set out below:

IFRS 2: Share based payments (effective: 1 January 2018)
IFRS 4: Amendments to Insurance Contracts (effective: 1 January 2018)
IAS 40: Amendments to transfers of Investment Property (effective: 1 January 2018)
IAS 28: Amendments to Investments in associates on long term interest in associates and joint ventures (effective: 1 January 2019)
IAS 19: Amendments to Employee benefits on plan amendment, curtailment or settlement (effective: 1 January 2019)
IFRS 17: Insurance Contracts (effective: 1 January 2021)
IFRIC 22: Foreign currency transactions and advance consideration (effective: 1 January 2018)
IFRIC 23: Uncertainty over income tax treatments (effective: 1 January 2019)
IFRS 1: First time adoption of IFRS (effective: 1 January 2018)
IFRS 3: Business Combinations (effective: 1 January 2019)
IFRS 11: Joint Arrangements (effective: 1 January 2019)
IAS 12: Income Taxes (effective: 1 January 2019)
IAS 23: Borrowing Costs (effective: 1 January 2019)

The LLP's assessment of effective standards that could have an impact on the financial statements is set out below:

IFRS 9 Financial instruments
IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

There will be no impact on the LLP's accounting for financial assets that are affected by the changes in classification and measurement such as instruments classified as available for sale, equity instruments or equity investments as the LLP currently does not have any of these types of financial assets.

Accordingly, the LLP does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the LLP's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the LLP does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

1. **GENERAL INFORMATION - continued**

New standards and interpretations not yet adopted - continued

IFRS 9 Financial instruments - continued
The new hedge accounting rules means that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The LLP does not expect a significant impact on the accounting for its hedging relationships as currently the LLP has not entered into any hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through Other Comprehensive Income, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the LLP has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2016. After that date, the new rules must be adopted in their entirety. The LLP does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 Revenue from Contracts with Customers
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the LLP's financial statements and has identified that accounting for certain costs incurred in fulfilling a contract may impact the revenue recognition for the LLP. IFRS 15 states that certain costs which are currently expensed may need to be recognised as an asset.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018 and the expected date of adoption by the LLP is 1 July 2018.

IFRS 16 Leases
IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the LLP's operating leases. As at the reporting date, the LLP has non-cancellable operating lease commitments of £43,816,000 (2017: £26,229,000), see note 17. However, the LLP has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the LLP's profit and classifications of cash flows.

1. **GENERAL INFORMATION - continued**

New standards and interpretations not yet adopted - continued

IFRS 16 Leases - continued
Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the LLP does not intend to adopt the standard before its effective date.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Revenue
Revenue is measured at fair value of the consideration received or receivable, and represents amounts receivable for services supplied, net of discounts, returns and value added taxes.

Revenue is recognised when the revenue can be reliably measured; when it is probable that future economic benefits will flow to the LLP and when specific criteria have been met. The LLP deliver pathology facility services and revenue is recognised when the testing is complete.

Operating leases
Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are recognised as an expense on a straight line basis. Lease incentives such as rent-free periods received or receivable are spread on a straight line basis over the lease term.

Pension costs
The LLP is a NHS Pension Direction employer and employees include members of the NHS's pension schemes. Contributions to these and the LLP's other defined contribution pension schemes are charged to the Income Statement in the period in which they become payable.

Income tax
The income tax payable on the profits of HSL (FM) LLP is the liability of the Members and not dealt with in these financial statements.

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the reporting date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Property, Plant & Equipment
Property, plant & equipment are stated at historic purchase cost less accumulated depreciation. The cost of property, plant & equipment is their purchase cost, together with any incidental expenses of acquisition. Assets in the course of construction are classified as work-in-progress and are depreciated from the date the asset is brought into use.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life taking into consideration any residual value of the assets. The residual values of assets are reviewed, and adjusted, as appropriate at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Plant & Equipment - continued

Leasehold improvements	- 4-10% per annum
Furniture, fixtures & fittings	- 14-25% per annum
IT Equipment (Hardware)	- 20-33.33% per annum
IT Equipment (Software)	- 20-25% per annum
Laboratory equipment	- 10-50% per annum

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the Income Statement.

Intangible assets
Intangible assets comprise software items which are not an integral part of the related hardware. Items are initially recognised at cost which includes directly attributable costs to bring the software into its condition for use. Subsequently, software items are measured at cost less accumulated amortisation and any impairment losses. Software items are amortised on a straight-line basis over their estimated useful lives of two to five years.

Impairment reviews
Impairment reviews of property, plant and equipment and intangible assets are performed by management if there is an indication of potential impairment. The need for impairment is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Inventory
Inventory is valued at cost. Cost is based on the cost of purchase on a first in, first out basis. Provision has been made, where necessary, for slow moving, obsolete and defective stocks.

Financial instruments

a) Financial assets
The LLP's financial assets are classified as loans and receivables and include cash and cash equivalents, trade debtors and other receivables including amounts owed by group undertakings. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The LLP has no financial assets measured at fair value.

If collection of financial assets is expected within 12 months after the end of the reporting period, or if amounts can be called on demand, they are classified as current. Amounts expected to be collected more than 12 months after the end of the reporting period are classified as non-current.

Trade debtors and amounts owed by group undertakings
Trade debtors are amounts due from customers for delivering services in the normal course of business. Amounts owed by group undertakings are balances with related parties which arise in the normal course of business. Trade debtors and other receivables are initially recognised at cost (which is equal to fair value on day one) and are subsequently measured at amortised cost using the effective interest method, including any provision for impairment.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and short term overnight deposits that are readily convertible into known amounts of cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments – continued

b) Financial liabilities
The LLP's financial liabilities include trade creditors and other payables including amounts owed to group undertakings. These are classified as current liabilities if amounts are due within 12 months after the end of the reporting period or if amounts are repayable on demand. Amounts due more than 12 months after the end of the reporting period are classified as non-current liabilities.

Trade creditors and amounts owed to group undertakings
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts owed to group undertakings are balances which arise in the normal course of business. Creditors are recognised at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest method.

Functional and presentation currency
Items included in the financial statements of the LLP are measured using the currency of the primary economic environment in which the LLP operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the LLP's functional currency.

Business combination
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the LLP in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date at fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounting for in accordance with relevant IFRSs.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

a) Useful economic lives of property, plant and equipment
The annual depreciation charge is sensitive to changes in the economic useful lives and residual values of the assets. The useful economic lives and residual values are assessed annually. They are amended when necessary to reflect current estimates, based on the physical condition and economic useful utilisation. See note 10 for the carrying value of the property, plant and equipment and note 2 for the economic useful lives.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS - continued

b) Capitalisation of directly attributable costs as work in progress
The LLP capitalised as part of work in progress all directly attributable costs relating to the building project of the core laboratory which includes incremental costs and the operating lease expense while the building is still under construction. Once the building is ready for use as intended by management these costs will be expensed into the Income Statement. See note 10 for the carrying value of work in progress.

c) Impairment of financial assets
The LLP assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the impairment loss is recognised in profit or loss.

d) Dilapidations provision
The LLP's provision comprises of dilapidation obligations under the operating lease agreement. The provision is measured at the present value of the expenditure estimated to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. See note 14.

4. REVENUE

The revenue is attributable to the principal activity of the LLP and derived in the United Kingdom. An analysis of revenue by class of business is given below:

	2018	2017
	£'000	£'000
Facilities services	**63,403**	53,314

5. STAFF COSTS

	2018	2017
	£'000	£'000
Wages and salaries	**1,635**	1,084
Social security costs	**162**	103
Other pension costs (note 15)	**81**	31
	1,878	1,218

Included in staff costs are an element of capitalised staff costs relating to the calibration and validation phase of the building project at One Mabledon Place.

The staff costs presented above in respect of the comparative year have been represented in order to show them on a like for like basis with the current year costs and better reflect the direct costs due to employees of the LLP.

5. STAFF COSTS - continued

The average monthly number of employees during the year

	2018 Number	2017 Number
Laboratory	12	3
Administration	42	31
	54	34

6. OPERATING PROFIT

The operating profit is stated after charging:

	2018 £'000	2017 £'000
Depreciation – owned assets	3,212	2,494
Amortisation – intangible assets	95	90
Operating leases	2,678	2,099
Auditors' remuneration – audit	22	20

The non-audit fees for the year were £nil (2017: £nil).

7. FINANCE COST

	2018 £'000	2017 £'000
Other (note 14)	91	-

8. MEMBERS' PROFIT SHARES

Members are remunerated solely out of the profits of the LLP. Final allocation of profits to Members is made by the Management Board as per the Limited Liability Partnership Agreement dated 30 July 2014. The allocation of profits to those who were Members during the financial year is discretionary and needs to be approved by the Management Board within 2 months after year-end.

	2018 Number	2017 Number
	2	2

The Statement of Recommended Practice, "Accounting by Limited Liability Partnerships", requires that the average profit per Member is calculated by dividing the profit for the financial year before Members' remuneration and profit shares by the average number of Members:

	2018 £'000	2017 £'000
Average profit per Member	1,177	4,819

The Member with the largest Members' remuneration and profit share for the current year was Health Services Laboratories LLP with a share of £2,162,000 (2017: £9,636,000). Total owed to Health Services Laboratories LLP at 30 June 2018 is £26,236,000 (2017: £23,880,000).

9. INTANGIBLE ASSETS

	Software	Work in progress	Total
	£'000	£'000	£'000
COST			
At 1 July 2017	375	10	385
Additions	59	-	59
Reclassification from property, plant and equipment (note 10)	259	-	259
Disposal	-	(10)	(10)
At 30 June 2018	**693**	**-**	**693**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 July 2017	114	-	114
Amortisation for the financial year	95	-	95
At 30 June 2018	**209**	**-**	**209**
NET BOOK VALUE			
At 30 June 2018	**484**	**-**	**484**
At 30 June 2017	261	10	271

Amortisation of intangible assets is included in administrative expenses in the Statement of Comprehensive Income. There were no finance leases during the year (2017: none).

Certain software was bought as part of the One Mabledon Place project and were capitalised in Property, Plant & Equipment in work in progress while the building project was in the construction phase. As part of the capitalisation of the project since go-live the software was reclassified to Intangible Assets (note 10).

10. **PROPERTY, PLANT & EQUIPMENT**

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	IT Equipment £'000	Work in progress £'000	Total £'000
COST					
At 1 July 2017	3,981	5,473	457	40,871	50,782
Additions	-	1,145	81	8,409	9,635
Reclassification to intangible assets (note 9)	-	-	(259)	-	(259)
Movement in work in progress	(278)	-	-	-	(278)
Capitalised work in progress	30,046	12,747	813	(43,606)	-
At 30 June 2018	**33,749**	**19,365**	**1,092**	**5,674**	**59,880**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 July 2017	1,923	3,981	290	-	6,194
Charge for the financial year	1,126	1,941	145	-	3,212
At 30 June 2018	**3,049**	**5,922**	**435**	**-**	**9,406**
NET BOOK VALUE					
At 30 June 2018	**30,700**	**13,443**	**657**	**5,674**	**50,474**
At 30 June 2017	2,058	1,492	167	40,871	44,588

There are no restrictions on the title of property, plant and equipment and no assets are pledged as security for liabilities. There were no finance leases during the year (2017: none).

The movement in work in progress represents the share of fit out costs that were charged to The Doctors Laboratory Limited another company within the Group.

11. **INVENTORY**

	2018 £'000	2017 £'000
Consumables and reagents	**4,471**	3,622

Inventories represent materials consumed in pathology testing process and forms part of the service HSL (FM) LLP delivers to its customers.

The Members estimate the carrying value of inventories to approximate their fair value and no inventory has been pledged as security.

During the year £33,648,000 (2017: £24,127,000) of consumables and reagents were recognised in Cost of sales in the Income Statement and Statement of Comprehensive Income.

12. TRADE DEBTORS AND OTHER RECEIVABLES

AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade debtors	**6,795**	5,618
Amounts owed by group undertakings	**3,827**	952
Other debtors	**213**	237
Prepayments and accrued income	**4,197**	2,340
	15,032	9,147

Trade debtors are stated after provisions for impairment of £nil (2017: £nil). All trade debtors are considered to be current and the payment terms are between 30-60 days once the invoice was issued.

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Management deems the carrying value of the financial assets to approximate their fair value.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade creditors	**7,085**	4,139
Amounts owed to group undertakings	**33,519**	27,709
Other creditors including social security and taxation	**3,071**	2,858
Accruals and deferred income	**2,410**	1,609
	46,085	36,315

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

14. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

The provision relates to the dilapidation obligation under non-cancellable operating leases.

	£'000
At 1 July 2017	1,675
Charged to the Income Statement:	
- Dilapidation provision	91
At 30 June 2018	**1,766**

On 6 November 2015, HSL (FM) LLP signed a lease agreement for One Mabledon Place with The Doctors Laboratory Limited. Under this lease agreement HSL (FM) LLP is obligated at the end the lease term to reinstate the premises within their specific demise that mainly consists of the laboratory floors in the building.

At 30 June 2018 the provision is expected to be utilised at the end of the lease agreement. In the likely event that the lease is extended at the end of the lease term the dilapidation criteria in the renewed lease may change and the utilisation of the provision may become uncertain.

Professional advice received indicates the dilapidations assessment for reinstatement once all planned works are completed is likely to be £1,766,000 (2017: £1,675,000) at current cost at the end of the 15 year lease term. The present value of the dilapidations was calculated using a discount rate of 2% and £91,000 of interest was recognised through the Income Statement for the year ending 30 June 2018.

15. PENSIONS

The LLP operates a number of defined contribution schemes for its employees. The total cost for the year was £81,000 (2017: £31,000) and the amount outstanding as at 30 June 2018 was £15,000 (2017: £32,000).

16. TOTAL MEMBERS' INTERESTS

	Other Members' interests £'000	Members' capital £'000
Members' interests at the beginning of the year	348	23,535
Allocation of profit	-	2,355
Depreciation on assets contributed by Members	(348)	348
Members' interests after profit for the year	-	**26,047**
Amounts withdrawn by Members	-	-
Members' interests at end of the year	-	**26,047**

The basis on which profits are allocated is described in note 8.

Members' capital contributions are determined by the Management Board having regard, inter alia, to the working capital needs of the business.

In the event of winding up all creditors will be settled and if any surplus remains and this relates to undivided profits of the LLP in that financial year this will be divided amongst the Members. Any remaining balance will be paid to the Members in proportion to their Capital Interests.

17. COMMITMENTS

At 30 June 2018 the LLP had capital commitments of £1,560,000 (2017: £1,819,000) and other commitments of £1,139,000 (2017: £823,000) for non-cancellable maintenance contracts for equipment.

The following operating lease commitments under non-cancellable leases are:

	2018 £'000	2017 £'000
Expiring:		
Within one year	**2,424**	3,340
Between one and five years	**13,723**	5,971
More than five years	**27,669**	16,918
	43,816	26,229

18. CONTROLLING PARTIES

At 30 June 2018, the LLP's intermediate parent is, The Doctors Laboratory Limited and the ultimate parent company and controlling party, and the parent company of the largest group preparing consolidated financial statements, of which the LLP is a Member, was Sonic Healthcare Limited, a company incorporated in Australia. The smallest group preparing consolidated financial statements of which the LLP is a Member, is Health Services Laboratories LLP.

Copies of the consolidated financial statements of Sonic Healthcare Limited are available from 14 Giffnock Avenue, Macquarie Park, New South Wales 2113, Australia.

19. RELATED PARTIES

The related parties transactions for the year ended 30 June 2018 are set out below:

	Trade debtors and other receivables £'000	Creditors £'000	Revenue £'000	Cost of sales and Administrative expenses £'000
The Doctors Laboratory Limited	725	-	12,389	8,193
TDL Genetics Limited	3,120	-	5,731	631
Health Services Laboratories LLP	-	27,834	-	1,863
HSL (Analytics) LLP	-	4,712	-	-
Royal Free London NHS Foundation Trust	421	605	13,507	1,271
Whitfield Street Properties Limited	-	-	-	177
University College London Hospitals NHS Foundation Trust	4,358	676	19,293	1,593
HSL Pathology LLP	-	497	1,563	-
GLP Medical Group	-	283	-	49
Barnet and Chase Farm	2,118	30	4,951	1,160
	10,742	**34,637**	**57,434**	**14,937**

19. RELATED PARTIES - continued

The related parties transactions for the year ended 30 June 2017 are set out below:

	Trade debtors and other receivables £'000	Creditors £'000	Revenue £'000	Cost of sales and Administrative expenses £'000
The Doctors Laboratory Limited	474	-	12,958	3,443
TDL Genetics Limited	479	-	530	258
Health Services Laboratories LLP	-	25,260	-	1,815
HSL (Analytics) LLP	-	601	-	-
Royal Free London NHS Foundation Trust	587	45	13,980	1,273
Whitfield Street Properties Limited	-	17	-	721
University College London Hospitals NHS Foundation Trust	4,635	359	19,911	1,623
HSL Pathology LLP	-	69	968	-
GLP Medical Group	-	1,754	-	1,056
NWLHT Facilities LLP	-	8	7	7
	6,175	**28,113**	**48,354**	**10,196**

20. BUSINESS COMBINATION

On 1 May 2018 Health Services Laboratories LLP, another LLP within the HSL Group, acquired an advanced diagnostics laboratory from UCL. The transaction meets the definition of a business combination under IFRS 3.

As part of the acquisition assets of £180,000 were sold from Health Service laboratories LLP to HSL (FM) LLP. The assets sold consisted of property, plant and equipment of £80,000 and inventory of £100,000. The property plant and equipment is being depreciated in line with the group accounting policies.

HSL (FM) LLP owns 100% of the property, plant and equipment and inventory. The aggregate net assets purchased and consideration paid is summarised below:

	£'000
Property, Plant and Equipment	80
Inventory	100
	180
Consideration paid	(180)
	-

As part of the acquisition the facilities workforce transferred to HSL (FM) LLP at a consideration of £nil. HSL (FM) LLP now employs 100% of the facilities workforce as part of the business combination.

The only inputs and processes acquired relate to the employees. No net identifiable assets were acquired and there is no goodwill, contingent liabilities or contingent consideration associated with these transactions.

21. POST BALANCE SHEET EVENT

After year end the finance, laboratory and quality database which formed part of the intangible asset, business intelligence, was sold by Health Services Laboratories LLP to HSL (FM) LLP at the acquisition fair value of £275,000.