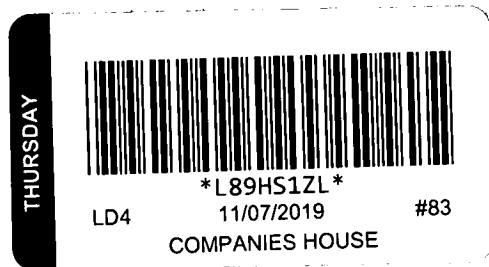


Registration number: 00390328

G4S Care and Justice Services (UK) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



G4S Care and Justice Services (UK) Limited

Contents

| | Page(s) |
|-----------------------------------|----------------|
| Company Information | 1 |
| Strategic Report | 2 to 4 |
| Directors' Report | 5 to 6 |
| Independent Auditors' Report | 7 to 9 |
| Income Statement | 10 |
| Statement of Comprehensive Income | 11 |
| Statement of Changes in Equity | 12 to 13 |
| Statement of Financial Position | 14 to 15 |
| Notes to the Financial Statements | 16 to 40 |

G4S Care and Justice Services (UK) Limited

Company Information

| | |
|-----------------------------|----------------------------|
| Directors | J M Hartley |
| | G M Nienaber |
| | G A Levinsohn |
| Company secretary | V J Patel |
| Registered office | Southside |
| | 105 Victoria Street |
| | London |
| | SW1E 6QT |
| Independent auditors | PricewaterhouseCoopers LLP |
| | 1 Embankment Place |
| | London |
| | WC2N 6RH |

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2018

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

Fair review of the business

Principal activity

The principal activity of G4S Care and Justice Services (UK) Limited ("the Company") is the provision of highly specialised services to central and local governments and government agencies and authorities including adult custody and rehabilitation, prisoner escorting and immigration services.

Financial performance

The Company has net assets of £85,505,000 (2017: £67,678,000). This represents a year-on-year increase of £17,827,000 (26.3%).

The Company recorded revenue of £341,893,000 (2017: £335,273,000). This represents a year-on-year increase of £6,620,000 (2%). In comparison, the Company recorded cost of sales of £300,469,000 (2017: £286,364,000). This represents a year-on-year increase of £14,105,000 (4.9%). Overall, the Company recorded gross profit of £41,424,000 (2017: £48,909,000). This represents a year-on-year decrease of £7,485,000 (15.3%). The current year includes a specific onerous contract credit of £1,100,000 (2017: £4,904,000) in relation to the COMPASS contract and a specific onerous contract charge of £8,900,000 (2017: £Nil).

Under the UK Compass asylum seeker contract with the Home Office, the Company provides accommodation, transportation and subsistence services for asylum seekers whilst their claims are being processed. This contract commenced in 2012 and will come to an end in August 2019. An onerous contract provision for this contract was first recognised in 2014. During the year we managed the contract within existing provisions and we are making good progress towards an exit from this contract in August 2019. There has been a reduction in the expected future losses and therefore a specific items credit of £1,100,000 (2017: £4,904,000) has been recorded.

On 20 August 2018, the Ministry of Justice exercised the contractual 'step in' right on the HMP Birmingham prison contract for an initial six month period. On 1 April 2019, the Company announced that by mutual agreement with the Ministry of Justice it will permanently transfer the management of HMP Birmingham prison to Her Majesty's Prison and Probation Service (HMPPS) with effect from 1 July 2019. The Company believes that potential operating losses are materially contained within the provision provided at the 2018 year end.

The Company made a profit for the financial year of £17,760,000 (2017: £32,161,000). This represents a year-on-year decrease of £14,401,000 (44.8%).

The directors consider the result for the year to be satisfactory.

Future developments

The directors expect the general level of activity of the Company to remain consistent with the prior years and the Company's principal activity is not expected to change substantially.

We continue to see attractive long-term growth opportunities in ancillary custodial services as governments consider how to extend their use to tackle other issues such as domestic violence.

In immigration, asylum, deportation, youth custody and associated services, declining margins coupled with greater reputation risk are expected to contribute to a more challenging operating environment.

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Key performance indicators

The directors utilise a wide range of operational performance measures to monitor the Company's business activities. However, the operational performance measures are all specific to a particular activity or contract. The Company's directors do not believe that using further key performance indicators would be necessary or appropriate for an understanding of the development, performance or position of the business as a whole.

Principal risks and uncertainties

All businesses are subject to risk. Many individual risks are macro-economic or social in nature and thus they are common to many businesses. Below, the risks considered key to the Company have been listed. The key risks are those which would materially damage the Company's strategy, reputation, business, profitability or assets. This list is in no particular order and it is not an exhaustive list of all potential risks. Some risks may be unknown at present and it may transpire that risks currently considered immaterial become material in the future.

(1) Changes in demand for COMPASS contract

The Company's ability to meet its obligations under the COMPASS contract is dependent on it being able to source suitable accommodation. An increase in demand for housing of asylum seekers under the COMPASS contract may result in an increase of costs without the ability for the Company to recover such costs resulting in increased losses.

In January 2019 it was announced that the Company was unsuccessful in retaining the contract after the expiry of the current one. An increase in exit costs could result in the contract making higher losses than the existing onerous contract provision.

Risk mitigation approach

There are monthly reviews attended by the senior management of the Company which cover current and expected demand along with current and future availability of accommodation either self-delivered or through subcontractors. Given the short period remaining to the expiry of this contract, any potential future changes to key assumptions made when estimating its future losses are not expected to have a significant impact.

Management is working closely with suppliers to monitor demobilisation costs and we expect to exit the contract within existing provision.

(2) Major changes in market dynamics

Such changes in dynamics could include changes in the housing market where asylum seeker accommodation is provided, changes in dynamics with suppliers, new technologies, government legislation or customer consolidation and could, particularly if rapid or unpredictable, impact the Company's revenues and profitability.

Risk mitigation approach

So as to better understand and influence the market, the group is committed to a policy of proactive engagement across its geographic range, with customers, industry associations, government regulators and employee representatives. We continue to invest in and develop our sales and business development systems. We perform customer satisfaction monitoring to improve measurement of our engagement with our clients and therefore making us more effective in driving stronger customer relationships.

G4S Care and Justice Services (UK) Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

(3) *Onerous contract obligations*

Should the Company commit to sales contracts which result in unavoidable disadvantageous pricing mechanisms, unachievable service levels or excessive liability, these could result in future losses which would have to be recognised upfront based on the Company's best estimate.

Risk mitigation approach

We have strict thresholds for the approval of major bids including completion and review of a comprehensive approval template, a detailed legal review and senior management oversight. These are embedded into our Salesforce opportunity management tool. When appropriate we conduct external reviews of bid models.

Where a contract has been identified as onerous, senior management perform monthly reviews of performance against the latest projected losses. Where necessary, adjustments are made for future loss provision.

(4) *Poor operational service delivery*

Should the Company fail to meet the operational requirements of its customers, including a major failure of service delivery at a prison, it could impact its reputation, contract retention and growth.

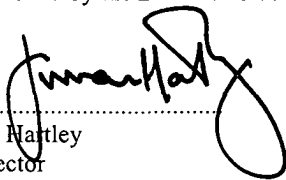
Risk mitigation approach

The Company, in conjunction with G4S plc, performs 360° contract assurance reviews which focus on key aspects of contract management and performance.

Senior management perform monthly reviews of contracts where commercial and/or performance issues have been identified. Management also regularly review the top 25 contracts across the division in which the Company is included.

In 2019, group internal audit will continue to focus on major contracts in the UK business not covered by the 360° contract assurance reviews.

Approved by the Board on 9 July 2019 and signed on its behalf by:


.....
J M Hartley
Director

G4S Care and Justice Services (UK) Limited

Directors' Report for the Year Ended 31 December 2018

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

Directors of the Company

The directors of the Company, who were in office during the year and up to the date of signing, were as follows:

J M Hartley

P Neden (resigned 31 December 2018)

G M Nienaber

The following director was appointed after the year end:

G A Levinsohn (appointed 14 January 2019)

Results and dividends

The results for the year are set out on page 10. The directors do not recommend the payment of a dividend (2017: £Nil).

A review of the progress of the Company's business during the year, likely future developments, key performance indicators and principal business risks are contained in the Strategic Report on page 2.

Employment of disabled persons

It is the policy of the Company to give fair consideration to applications for employment made by disabled persons acknowledging the particular abilities and aptitudes of each applicant and taking into account the requirements of the vacancies available. The Company has been assessed and approved to use the Positive about Disabled People logo on its recruitment advertisements in the UK where the Company is also a member of the Employers Forum on Disability to raise awareness in the organisation of the importance of giving assistance to disabled persons in employment.

In the event of a member of staff becoming disabled, every effort is made via the Company's Occupational Health Adviser to ensure that their employment with the Company continues and that appropriate help is given to assist the member of staff.

It is the policy of the Company to ensure 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 any disability.

Employee involvement

The Company is committed to inform and involve its staff in the business of the Company. Formal consultative committees exist to ensure that issues of mutual interest can be discussed and resolved. Company newsletters, employee magazines and other communications are used to keep staff informed of events within the Company.

Environmental matters

The Company's business does not have a significant direct impact on the environment. However, the Company recognises the importance of its responsibilities to reduce environmental impact in areas such as energy usage, recycling or environmentally-friendly products. In these areas the Company operates in accordance with the policies of G4S plc which are detailed in the G4S plc's annual report.

Financial risk management

The Company operates under the financial risk management objectives and policies of its ultimate parent, G4S plc, into which the results of the Company are consolidated. G4S plc's key objectives and policies include:

- Mitigating liquidity risk by ensuring there are sufficient undrawn committed facilities available to the G4S plc group;
- Conducting operating and financing activities, wherever possible, in the Company's local currency; and
- Utilising interest rate swaps and, to a lesser extent, forward rate agreements to manage future cash outflows.

G4S Care and Justice Services (UK) Limited

Directors' Report for the Year Ended 31 December 2018 (continued)

Financial risk management (continued)

Further details of the financial risk management objectives and policies of the G4S plc group, which the Company is a member of, are included in the consolidated financial statements of G4S plc.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- 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 Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Disclosure of information to the auditors

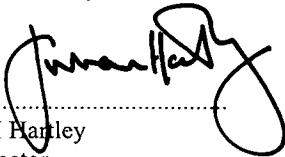
In the case of each director in office at the date the Directors' Report is approved:

- So far as each 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 he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution confirming their appointment will be approved at the Annual General meeting.

Approved by the Board on 9 July 2019 and signed on its behalf by:


.....
J M Hatley
Director

G4S Care and Justice Services (UK) Limited

Independent Auditors' Report to the Members of G4S Care and Justice Services (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, G4S Care and Justice Services (UK) 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 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.

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 31 December 2018; the income statement; the statement of comprehensive income; 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.

G4S Care and Justice Services (UK) Limited

Independent Auditors' Report to the Members of G4S Care and Justice Services (UK) Limited (continued)

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 on, 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, set out on page 6, 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 controls as they determine 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.

G4S Care and Justice Services (UK) Limited

Independent Auditors' Report to the Members of G4S Care and Justice Services (UK) Limited (continued)

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. 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.

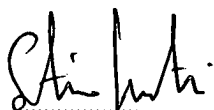
Other required reporting

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.



.....
Sotiris Kroustis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

1 Embankment Place
London
WC2N 6RH

9 July 2019

G4S Care and Justice Services (UK) Limited

Income Statement for the Year Ended 31 December 2018

| | | 2018 | As restated* |
|--|------|-----------|---------------|
| | Note | £ 000 | 2017 £ 000 |
| Revenue | 4 | 341,893 | 335,273 |
| Cost of sales | | (300,469) | (286,364) |
| Cost of sales excluding specific items | | (292,669) | (291,268) |
| Specific items - charges | 5 | (8,900) | - |
| Specific items - credits | 5 | 1,100 | 4,904 |
| Gross profit | | 41,424 | 48,909 |
| Administrative expenses | | (26,958) | (19,835) |
| Administrative expenses | | (26,958) | (23,018) |
| Profit on disposal of assets held for sale | | - | 3,183 |
| Other income | | - | 3,167 |
| Operating profit | 5 | 14,466 | 32,241 |
| Dividend income | | 3,305 | 3,918 |
| Finance income | 9 | 2,984 | 2,290 |
| Finance costs | 10 | (156) | (380) |
| Profit before income tax | | 20,599 | 38,069 |
| Income tax expense | 11 | (2,839) | (5,908) |
| Profit for the financial year | | 17,760 | 32,161 |

The above results were derived from continuing operations.

* See note 28 for details of restatement as a result of the adoption of IFRS 15.

G4S Care and Justice Services (UK) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

| | 2018 | As restated* |
|--|----------------------|----------------------|
| | £ 000 | 2017 |
| | | £ 000 |
| Profit for the financial year | <u>17,760</u> | <u>32,161</u> |
| Total comprehensive income for the year | <u><u>17,760</u></u> | <u><u>32,161</u></u> |

* See note 28 for details of restatement as a result of the adoption of IFRS 15.

G4S Care and Justice Services (UK) Limited

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

| | Called-up share capital £ 000 | Share premium reserve £ 000 | Revaluation reserve £ 000 | As restated* (Accumulated losses)/Retained earnings £ 000 | As restated* Total £ 000 |
|---|-------------------------------------|-----------------------------------|---------------------------------|---|--------------------------------|
| At 1 January 2017 | 51,538 | 3,983 | 592 | (20,766) | 35,347 |
| Comprehensive income: | | | | | |
| Profit for the financial year | - | - | - | 32,161 | 32,161 |
| Other comprehensive (expense)/income: | | | | | |
| Excess depreciation on revalued properties | - | - | (16) | 16 | - |
| Deferred tax on revalued properties | - | - | 14 | (14) | - |
| Total comprehensive (expense)/income for the financial year | - | - | (2) | 32,163 | 32,161 |
| Transactions with owners: | | | | | |
| Share based payment transactions | - | - | - | 170 | 170 |
| Total transactions with owners | - | - | - | 170 | 170 |
| At 31 December 2017 | 51,538 | 3,983 | 590 | 11,567 | 67,678 |

* See note 28 for details of restatement as a result of the adoption of IFRS 15.

G4S Care and Justice Services (UK) Limited

Statement of Changes in Equity for the Year Ended 31 December 2018 (continued)

| | Called-up share capital £ 000 | Share premium reserve £ 000 | Revaluation reserve £ 000 | As restated* Retained earnings £ 000 | As restated* Total £ 000 |
|--|-------------------------------------|-----------------------------------|---------------------------------|---|--------------------------------|
| At 1 January 2018 | 51,538 | 3,983 | 590 | 11,567 | 67,678 |
| Comprehensive income: | | | | | |
| Profit for the financial year | - | - | - | 17,760 | 17,760 |
| Total comprehensive income for the financial year | - | - | - | 17,760 | 17,760 |
| Transactions with owners: | | | | | |
| Share based payment transactions | - | - | - | 67 | 67 |
| Transfer of revaluation reserve to retained earnings | - | - | (590) | 590 | - |
| Total transactions with owners | - | - | (590) | 657 | 67 |
| At 31 December 2018 | 51,538 | 3,983 | - | 29,984 | 85,505 |

* See note 28 for details of restatement as a result of the adoption of IFRS 15.

G4S Care and Justice Services (UK) Limited

(Registration number: 00390328)

Statement of Financial Position as at 31 December 2018

| | | 2018 | As restated* |
|----------------------------------|------|------------------|------------------|
| | Note | £ 000 | 2017 £ 000 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 1,825 | 2,471 |
| Intangible assets | 13 | 255 | 333 |
| Investments | 14 | 20,433 | 20,433 |
| Deferred tax assets | 11 | 7,367 | 9,790 |
| | | <u>29,880</u> | <u>33,027</u> |
| Current assets | | | |
| Inventories | 15 | 1,616 | 956 |
| Trade and other receivables | 16 | 183,783 | 171,408 |
| Cash and cash equivalents | | 2,782 | 1,943 |
| | | <u>188,181</u> | <u>174,307</u> |
| Total assets | | <u>218,061</u> | <u>207,334</u> |
| Current liabilities | | | |
| Trade and other payables | 18 | (83,987) | (82,165) |
| Bank overdrafts | | (45) | - |
| Finance lease liabilities | 19 | (78) | (2,098) |
| Current tax liabilities | | (603) | (3,257) |
| Provisions | 20 | (36,239) | (29,694) |
| | | <u>(120,952)</u> | <u>(117,214)</u> |
| Non-current liabilities | | | |
| Trade and other payables | 18 | (8,943) | (10,263) |
| Finance lease liabilities | 19 | - | (78) |
| Provisions | 20 | (2,661) | (12,101) |
| | | <u>(11,604)</u> | <u>(22,442)</u> |
| Total liabilities | | <u>(132,556)</u> | <u>(139,656)</u> |
| Net assets | | <u>85,505</u> | <u>67,678</u> |
| Equity | | | |
| Called-up share capital | 22 | 51,538 | 51,538 |
| Share premium reserve | | 3,983 | 3,983 |
| Revaluation reserve | | - | 590 |
| Retained earnings | | 29,984 | 11,567 |
| Total shareholders' funds | | <u>85,505</u> | <u>67,678</u> |

* See note 28 for details of restatement as a result of the adoption of IFRS 15.

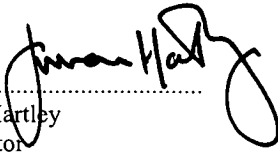
The notes on pages 16 to 40 form an integral part of these financial statements.

G4S Care and Justice Services (UK) Limited

(Registration number: 00390328)

Statement of Financial Position as at 31 December 2018 (continued)

The financial statements on pages 10 to 40 were approved by the Board on 9 July 2019 and signed on its behalf by:


.....
J M Hartley
Director

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

G4S Care and Justice Services (UK) Limited is incorporated in the United Kingdom, registered in England and Wales, and domiciled in the UK. It is a private company, limited by shares. The Company's registered office is: Southside, 105 Victoria Street, London, SW1E 6QT.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare and deliver consolidated financial statements as it is a wholly-owned subsidiary of a company established in the EU and it is included in the audited consolidated financial statements of its EU-established ultimate parent, G4S plc. The registered office of G4S plc is 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT. These financial statements therefore present information about the Company as an individual entity only and not as a group.

The financial statements are presented in sterling, which is the Company's functional currency, and in thousands of pounds unless stated otherwise.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Summary of disclosure exemptions

The Company has taken advantage of certain disclosure exemptions in FRS 101, in part because its financial statements are included in the publicly available consolidated financial statements of G4S plc. Copies of the consolidated financial statements of G4S plc may be obtained by writing to the Company Secretary, G4S plc, 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT.

These disclosure exemptions relate to:

- the requirements of IAS 7 'Statement of cash flows';
- new IFRSs that have been issued but are not yet effective and which have not been applied by the Company;
- comparative information for the movements from the beginning to the end of the year in respect of intangible assets, property, plant and equipment, and the number of shares, and certain other additional comparative information;
- financial instruments disclosures required by IFRS 7 'Financial Instruments: Disclosures';
- disclosures required by IFRS 13 'Fair Value Measurement';

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- disclosures required by IFRS 15 'Revenue from contracts with customers', paragraphs 113 (a), 114, 115, 118, 119 (a)-(c), 120-127 and 129;
- movements during the year in the number and weighted average exercise prices of share-based payments, how the fair value of services received or equity instruments granted was determined and the effect of share based payment transactions on the income statement and financial position;
- certain related party disclosures on key management compensation and transactions entered into between two or more wholly-owned members of a group; and
- capital management disclosures.

New standards, interpretations and amendments effective for the first time

IFRS 9 - Financial instruments

The Company has adopted IFRS 9 - Financial Instruments with effect from 1 January 2018, and has prepared the financial statements in accordance with the requirements of this new standard.

The new standard is applicable to the classification, measurement, impairment and re-categorisation of financial assets and liabilities. It also introduces a new hedge accounting model.

There has been no change to the Company's income statement, statement of comprehensive income, statement of changes in equity or statement of financial position on adoption. The Company has no financial liabilities held at fair value. The introduction of an expected-loss impairment model has had no material effect given the general quality and short-term nature of the Company's trade and other receivables. There has been no re-categorisation of assets on adoption of the new standard.

IFRS 15 - Revenue from Contracts with Customers

The Company has adopted IFRS 15 - Revenue from Contracts with Customers with effect from 1 January 2018 and has prepared the 2018 financial statements in accordance with the requirements of this new standard. The Company has chosen to apply the standard fully retrospectively and has restated comparatives where appropriate.

For the majority of the Company's services, the Company's right to consideration from its customers equates to the value of services supplied to the customer. Where this is the case, the practical expedient has been applied under IFRS 15 to recognise revenue as the customer is billed.

In certain contracts, the Company receives payment at the inception of the contract to compensate for mobilisation costs incurred at the inception of the contract. Historically, such payments have been recognised as revenue as the Group has incurred the related costs. Under IFRS 15, such amounts have been recorded as deferred income and recognised as services are provided.

See note 28 for further details on the impact of the change in accounting policy.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Revenue recognition

The Company's revenue arises from the provision of highly specialised services to central and local governments and government agencies and authorities including adult custody and rehabilitation, prisoner escorting and immigration services.

Revenue represents amounts arising from contracts with customers and is measured at the fair value of the consideration received or receivable, net of discounts, VAT and other sales-related taxes.

Contracts for care and justice services typically require the provision of a group of interrelated goods and services to the customer over a period of time. Such goods and services are typically considered to represent a single performance obligation as each promise is satisfied over the same period. Consideration received in respect of such services typically equates to the value of services supplied to the customer to date and the practical expedient has been applied under IFRS 15 to recognise revenue when services are provided for the amount that the Company has a right to invoice for those services.

For the majority of the Company's contracts, invoices are raised in the month or months after the delivery of services. Accrued income arises in relation to services provided that have not been invoiced at the year end. For some contracts payments are received in advance of the performance of the related services and are recognised within deferred income until the related services are delivered.

Contract acquisition and fulfilment costs

The Company recognises the incremental costs of obtaining a contract with a customer as an asset, to the extent that those costs are expected to be recovered during the contract. Such capitalised costs are amortised over the contract term. Bid team and other costs incurred prior to winning a contract are not capitalised but are charged to the income statement as incurred.

Contract fulfilment costs are capitalised if they relate directly to a contract; result in the creation or enhancement of an asset to be used in the performance of that contract; and are expected to be recovered under that contract. Capitalised contract fulfilment costs are amortised over the contract term in line with the delivery of goods or services.

Specific items

The income statement separately identifies results before specific items. Specific items are those that in management's judgement need to be disclosed separately in arriving at operating profit by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

All items that are reported as specific items are evaluated and approved by the Company's management prior to being separately disclosed. The Company seeks to be balanced when reporting specific items for both debits and credits, and any reversals of excess provisions previously created as specific items are classified consistently as specific items.

In general, provisions recognised for future losses on onerous contracts are charged to the income statement within cost of sales. However, where onerous contract charges are significant by virtue of their size, they are separately charged within specific items. Such losses are distinct from the "in-year" losses, which are utilised against provisions for onerous contract losses. Releases of onerous contract provisions originally charged as specific items are separately credited within specific items.

Specific items may not be comparable to similarly-titled measures used by other companies. Further details of onerous contract provisions can be found in note 20.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Employee benefits - retirement benefit cost

The G4S plc group, which the Company is a member of, operates both defined contribution and defined benefit pension schemes.

Payments to the defined contribution schemes are charged as an expense as they fall due and represent contributions payable to the schemes for the year. Where the Company is a member of state managed or public sector schemes, payments are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

With respect to the defined benefit pension schemes, as there is no contractual agreement or stated policy for charging the net defined benefit cost to the Company the pension charge recognised in the income statement represents the contributions payable to the schemes for the year.

Finance income and finance costs

Finance income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Finance costs are recognised as an expense in the income statement on the same basis.

Foreign currencies

The financial statements are presented in sterling, which is the Company's functional currency. Transactions in currencies other than the functional currency are translated at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the income statement.

Dividend income

Dividend income is recognised in the Company's financial statements in the period in which the dividends are approved by the shareholders of the subsidiary company.

Current and deferred tax

Tax is recognised in the income statement except to the extent that it relates to items recognised in equity, in which case it is recognised in equity or in other comprehensive income. The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of each deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Current and deferred tax (continued)

Deferred tax is measured based on the tax rates that have been enacted or substantively enacted by the end of the reporting period. Tax liabilities or refunds may differ from those anticipated due to changes in tax legislation, differing interpretations of tax legislation and uncertainties surrounding the application of tax legislation. In situations where uncertainties exist, provision is made for contingent tax liabilities and assets on the basis of management judgement following consideration of the available relevant information.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any provision for impairment.

Any revaluation surplus created by a revaluation of certain freehold land and buildings conducted prior to the adoption of FRS 101 on 1 January 2014 has been credited to the revaluation reserve in equity. An annual transfer is made from the revaluation reserve to retained earnings for the difference between depreciation based on the carrying amount of the assets and that based on the assets' original cost. During the year the revalued assets were sold and the related revaluation reserve was transferred to retained earnings.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than freehold land and assets under construction, less any estimated residual value, over their estimated useful economic lives, as detailed below. Where significant, the residual values and the useful economic lives of property, plant and equipment are re-assessed annually.

Asset class

Short leasehold property

Equipment and vehicles

Depreciation method and rate

over the period of the lease

3 - 10 years

Intangible assets

Capitalised computer software is stated at cost, net of amortisation and any provision for impairment.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic lives, as detailed below. Where significant, the residual values and the useful economic lives of intangible assets are re-assessed annually.

Asset class

Software

Amortisation method and rate

2 - 8 years

Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Impairment of non-financial assets

The carrying value of the Company's assets, with the exception of inventories, financial receivables and deferred tax assets, is reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine its recoverable amount. The amount of the reversal is limited such that the asset's carrying amount does not exceed that which would have been determined (after depreciation and amortisation) if no impairment loss had been recognised.

The Company provides for impairments in financial assets when there is objective evidence of impairment as a result of one or more events that impact the estimated future cash flows of the financial assets.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost represents expenditure incurred in the ordinary course of business in bringing inventories to their present condition and location and includes appropriate overheads. Cost is calculated on a first-in-first out basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Trade and other receivables

Trade receivables are initially recognised at fair value which, unless there is a significant financing component, represents the amount of consideration that is unconditional. These are subsequently carried at amortised cost using the effective interest method less loss allowances. Loss allowances are determined using expected loss rates which are calculated taking into account payment profiles over a period of 36 months before the balance sheet date and the corresponding historical credit losses experienced within this period. The expected loss rates are adjusted for current and forward-looking local economic and market conditions.

Amounts owed from/to group undertakings

Amounts owed from/to group undertakings are recognised initially at fair value and subsequently stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other payables

Trade payables are not interest-bearing and are stated initially at fair value and subsequently measured at amortised cost using the effective interest method.

Deferred income

Amounts received prior to the delivery of services are recorded as deferred income and released to the income statement as the services are provided.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Bank overdrafts

The Company's borrowings comprise bank borrowings and bank overdrafts. Bank borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing. Bank overdrafts comprise cash balances in an overdrawn position.

Interest expense on these balances is recognised in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions are recognised when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. The amount recognised as a provision is the Company's best estimate of the cost of settlement at the end of the reporting period.

In respect of claims and litigation, the Company provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. For all risks, the ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement. Management exercises judgement in measuring the exposures to contingent liabilities (see note 24) through assessing the likelihood that a potential claim or liability will arise and in quantifying the possible range of financial outcomes.

Where the time value of money is material, provisions are stated at the present value of the expected expenditure using an appropriate discount rate.

Onerous contracts

Onerous contract provisions are recognised when the unavoidable costs of meeting the contract obligations exceed the economic benefits expected to be received from it. A level of judgement is required in the establishment of management profit improvement plans to recover the position on loss-making contracts. These plans are generally taken into account in the calculation of the onerous contract provision only when the plan implementation has already commenced and tangible evidence exists of benefits has been delivered. The provision is calculated based on discounted cash flows to the end of the contract.

In general, provisions recognised for future losses are charged to the income statement. Where onerous contract provisions are material by virtue of their size, they are separately charged within specific items.

In-year operating losses from onerous contracts are accounted for as a utilisation of the related provision for future losses. Any excess or shortfall to the initial estimate for onerous contract provisions is credited or charged in the income statement consistent with where the charge for the initial provision was recognised.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. On occasion this classification requires a level of judgement. All other leases are classified as operating leases.

Assets held under finance leases are recognised at the inception of the lease at their fair value, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments made or received are apportioned between finance charges or income and the reduction of the lease liability or asset so as to produce a constant rate of interest on the outstanding balance of the liability or asset.

Called-up share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing any equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Share premium reserve

Share premium represents the excess of the issue price over the par value on share issues less transaction costs arising on issue.

Revaluation reserve

The revaluation reserve comprises the surplus or deficit arising on the revaluation of land and buildings.

Share-based payments

The Company benefits from share-based payments issued by its parent to certain employees. The Company does not have an obligation to settle the transaction with its employees, as this is the obligation of the parent. Therefore, the Company accounts for the share-based payments as equity settled, and recognises the corresponding increase in equity as a contribution from its parent.

The fair value of share-based payments is determined at the date of grant and expensed, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest. These changes exclude those resulting from any market-related performance conditions.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of the Company's accounting policies. These judgements, estimates and associated assumptions are based on historical experience, current and expected economic conditions, and in some cases, actuarial techniques as well as the various other factors that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Although these judgements, estimates and associated assumptions are based on management's best knowledge of current events and circumstances, the actual results may differ.

The judgements, estimates and assumptions which are of most significance in preparing the Company's financial statements are detailed below:

Collectability of amounts owed from group undertakings

The Company holds amounts owed from other G4S plc group entities. The decision whether to recognise a provision against such debtors requires judgement in respect of the underlying operational performance and economic risks faced by other G4S plc group companies. An impairment provision has not been recognised against such balances in the current or preceding year.

Deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Impairment of investments

Investments are tested for impairment where there are financial or non-financial indicators that the carrying value of investments may be greater than the expected present value of future cash flows. Judgement is required to determine whether such indicators exist. Where it is determined that a test for impairment is required, the inputs into the impairment model such as growth, future cash flows and discount rates are estimated. These estimates can have a significant impact on the result of the calculation and determine whether an impairment is recognised.

Onerous contract provision

When a long-term contract is expected to incur future unavoidable losses and has therefore become onerous, judgement is required to assess the future expected revenue and costs and hence to determine the appropriate level of provision. Further judgement is necessary in determining the extent to which account is taken of profit improvement plans developed by management to improve the profitability of the contract over the remainder of its life. Such plans are generally taken into account only once they have been developed, implementation has commenced, and there is tangible evidence of benefits being delivered. In addition, where onerous contracts have a termination date that can be extended solely at the customer's request, consideration is given, based on all facts and circumstances known by management, as to whether to provide for future losses to the earliest or the final termination date.

The Company delivers certain long-term services that are complex in nature. Some of these contracts may evolve to become loss-making, such that net unavoidable losses are expected to be incurred over their life.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Onerous contract provision (continued)

Where a contract is expected to be loss-making over its remaining term, the net present value of estimated future losses is determined in order to calculate an onerous contract provision. The identification and measurement of such provisions is subject to inherent risk, given the extended time periods often involved and the number of variables which are not all within the Group's control.

In particular, estimation is required in assessing future expected revenue and costs on such contracts, including:

- determining the expected impact of any profit improvement plans where sufficient evidence exists of benefits being delivered by those plans; and
- determining an appropriate discount rate to apply to material future cash flows.

The level of uncertainty in the estimates and assumptions supporting expected future revenues and costs can vary with the complexity of each contract and with the form of service delivery.

Further details of onerous contract provisions can be found at note 20 on page 36 of the financial statements.

Revenue recognition and contract review

The Company delivers outsourcing services that in some circumstances can be complex in nature and may be governed by unique contractual arrangements. In these cases, revenue is recognised in line with the contract at the fair value of the consideration received or receivable. In such contracts, there can be significant judgements and estimates in relation to variations or claims not specified within the original contract, to interpretation of complex contract wording, and in relation to estimates required to determine future costs to complete and expected margins, including the impact of contractual performance conditions which may give rise to penalties.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

| | 2018 | As restated 2017 |
|-----------------------|---------|---------------------|
| | £ 000 | £ 000 |
| Rendering of services | 341,893 | 335,273 |

Revenue arose from activities originating solely in the United Kingdom.

Assets and liabilities related to contracts with customers

Current assets

| | 2018 | As restated 2017 |
|---|---------------|---------------------|
| | £ 000 | £ 000 |
| Accrued income | 9,586 | 10,473 |
| Trade receivables | 22,781 | 23,665 |
| Provision for impairment of trade receivables | (162) | (76) |
| Assets recognised for costs incurred to fulfil a contract | 8 | 1,068 |
| Total contract assets | 32,213 | 35,130 |

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Revenue (continued)

Liabilities

| | 2018 £ 000 | As restated 2017 £ 000 |
|-----------------------------------|-----------------|------------------------------|
| Deferred income (current) | (3,303) | (3,211) |
| Deferred income (non-current) | (8,943) | (10,263) |
| Total contract liabilities | (12,246) | (13,474) |

During the year the Company recognised £2,379,000 of revenue that was held in deferred income as at 31 December 2017 (2017: £1,814,000 of revenue recognised was held in deferred income as at 31 December 2016), and £Nil (2017: £Nil) of revenue in relation to performance obligations satisfied in prior periods.

As at 31 December 2018, the Company had £8,000 (2017: £1,068,000) of capitalised contract fulfilment costs (see note 16) on its statement of financial position. Amortisation and impairment loss recognised as the cost of providing services in relation to these contracts during the year was £1,060,000 (2017: £250,000). The Company did not incur any material contract acquisition costs during the current year (2017: none).

5 Operating profit

Arrived at after charging/(crediting)

| | 2018 £ 000 | 2017 £ 000 |
|---|---------------|---------------|
| Specific items - credits | (1,100) | (4,904) |
| Specific items - charges | 8,900 | - |
| Depreciation expense | 581 | 674 |
| Amortisation expense | 82 | 79 |
| Impairment loss | - | 970 |
| Operating lease expense - property | 35,176 | 32,974 |
| Operating lease expense - plant and machinery | - | 404 |
| Operating lease expense - other | 2,018 | 1,117 |
| Loss on disposal of property, plant and equipment | 129 | 13 |

Specific items

In the current year, cost of sales includes a specific items credit of £1,100,000 (2017: £4,904,000) in relation to the COMPASS contract as a result of an improvement in the latest forecasted cash flows and a specific items charge of £8,900,000 (2017: £Nil) for future unavoidable losses in relation to a contract.

Please see note 20 for further details.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

6 Staff costs

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

| | 2018 £ 000 | 2017 £ 000 |
|--|----------------|----------------|
| Wages and salaries | 130,023 | 125,062 |
| Social security costs | 11,943 | 11,848 |
| Pension costs, defined contribution scheme | 7,139 | 5,990 |
| Redundancy costs | 88 | 124 |
| Share-based payment expenses | 67 | 170 |
| | <u>149,260</u> | <u>143,194</u> |

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

| | 2018 No. | 2017 No. |
|-------------------------------|--------------|--------------|
| Administration and management | 4,441 | 4,322 |
| Other departments | 31 | 31 |
| | <u>4,472</u> | <u>4,353</u> |

7 Directors' remuneration

The directors received no remuneration or accrued pension benefits in respect of their services to the Company during both the current and prior year.

8 Auditors' remuneration

Fees payable to the Company's auditors were as follows:

| | 2018 £ 000 | 2017 £ 000 |
|-----------------------------------|---------------|---------------|
| Audit of the financial statements | <u>210</u> | <u>198</u> |

The Company did not incur any non-audit fees in the current or prior year.

9 Finance income

| | 2018 £ 000 | 2017 £ 000 |
|---|---------------|---------------|
| Interest on cash and cash equivalents | 145 | - |
| Interest receivable from group undertakings | <u>2,839</u> | <u>2,290</u> |
| | <u>2,984</u> | <u>2,290</u> |

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Finance costs

| | 2018 £ 000 | 2017 £ 000 |
|--|---------------|---------------|
| Interest on bank overdrafts | 12 | 28 |
| Interest on obligations under finance leases | 144 | 352 |
| | <u>156</u> | <u>380</u> |

11 Income tax expense

Tax charged in the income statement is as follows:

| | 2018 £ 000 | As restated 2017 £ 000 |
|--|---------------|------------------------------|
| Current taxation | | |
| UK corporation tax | 603 | 3,257 |
| UK corporation tax adjustment to prior periods | (187) | - |
| | <u>416</u> | <u>3,257</u> |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | 2,674 | 2,843 |
| Arising from changes in tax rates and laws | (280) | (325) |
| Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods | 29 | 133 |
| Total deferred taxation | <u>2,423</u> | <u>2,651</u> |
| Tax expense in the income statement | <u>2,839</u> | <u>5,908</u> |

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Income tax expense (continued)

The tax on profit before income tax for the year is lower than the standard effective rate of corporation tax in the UK (2017: lower than the standard effective rate of corporation tax in the UK) of 19% (2017: 19.25%).

The differences are reconciled below:

| | 2018 £ 000 | As restated 2017 £ 000 |
|---|---------------|------------------------------|
| Profit before income tax | 20,599 | 38,069 |
| Corporation tax at standard rate | 3,914 | 7,328 |
| Decrease in current tax from adjustment for prior periods | (187) | - |
| Decrease from effect of revenues exempt from taxation | (628) | (1,589) |
| Increase from effect of expenses not deductible in determining taxable profit | 46 | 367 |
| Increase from effect of exercise employee share options | 11 | 48 |
| Decrease from transfer pricing adjustments | (66) | (54) |
| Deferred tax expense from unrecognised temporary difference from a prior period | 29 | 133 |
| Deferred tax credit relating to changes in tax rates or laws | (280) | (325) |
| Total tax charge | 2,839 | 5,908 |

The standard effective rate of corporation tax for the current year is lower than the standard effective rate of corporation tax for the prior year. The UK corporation tax rate decreased from 20% to 19% from 1 April 2017 and further reductions in the UK corporation tax rate will apply from 1 April 2020 when the rate reduces to 17%. All of these changes were enacted at the balance sheet date.

Deferred tax

Deferred tax assets are as follows:

| | Asset £ 000 | Liability £ 000 | Net deferred tax £ 000 |
|------------------------------|----------------|--------------------|------------------------------|
| 2018 | | | |
| Accelerated tax depreciation | 2,519 | - | 2,519 |
| Other items | 118 | - | 118 |
| Revaluation of property | - | - | - |
| Tax losses carry-forwards | 4,691 | - | 4,691 |
| Share-based payment | 39 | - | 39 |
| | 7,367 | - | 7,367 |

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Income tax expense (continued)

| | Asset £ 000 | Liability £ 000 | Net deferred tax £ 000 |
|------------------------------|----------------|--------------------|------------------------------|
| 2017 (as restated) | | | |
| Accelerated tax depreciation | 4,175 | - | 4,175 |
| Other items | - | (16) | (16) |
| Revaluation of property | - | - | - |
| Tax losses carry-forwards | 5,581 | - | 5,581 |
| Share-based payment | 50 | - | 50 |
| | <u>9,806</u> | <u>(16)</u> | <u>9,790</u> |

Deferred tax movement during the year is as follows:

| | As restated At 1 January 2018 £ 000 | Recognised in income £ 000 | At 31 December 2018 £ 000 |
|------------------------------|--|----------------------------------|---------------------------------|
| Accelerated tax depreciation | 4,175 | (1,656) | 2,519 |
| Other items | (16) | 134 | 118 |
| Revaluation of property | - | - | - |
| Tax losses carry-forwards | 5,581 | (890) | 4,691 |
| Share-based payment | 50 | (11) | 39 |
| Net tax assets | <u>9,790</u> | <u>(2,423)</u> | <u>7,367</u> |

Deferred tax movement during the prior year is as follows:

| | As restated At 1 January 2017 £ 000 | As restated Recognised in income £ 000 | As restated At 31 December 2017 £ 000 |
|------------------------------|--|---|--|
| Accelerated tax depreciation | 4,988 | (813) | 4,175 |
| Other items | 84 | (100) | (16) |
| Revaluation of property | (74) | 74 | - |
| Tax losses carry-forwards | 7,343 | (1,762) | 5,581 |
| Share-based payment | 100 | (50) | 50 |
| Net tax assets | <u>12,441</u> | <u>(2,651)</u> | <u>9,790</u> |

Deferred tax assets and liabilities on temporary differences have been calculated using the UK corporation tax rate which will apply in the period during which they are expected to reverse.

Deferred tax assets and liabilities on temporary differences expected to reverse in the period from 1 January 2019 to 31 March 2020 have been provided at 19%. Deferred tax assets and liabilities on timing differences expected to reverse on or after 1 April 2020 have been provided at 17%.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Property, plant and equipment

| | Short leasehold property £ 000 | Equipment and vehicles £ 000 | Total £ 000 |
|---------------------------------|--------------------------------------|------------------------------------|---------------------|
| Cost | | | |
| At 1 January 2018 | 186 | 16,513 | 16,699 |
| Additions | - | 65 | 65 |
| Disposals | (41) | (2,576) | (2,617) |
| At 31 December 2018 | <u>145</u> | <u>14,002</u> | <u>14,147</u> |
| Accumulated depreciation | | | |
| At 1 January 2018 | 108 | 14,120 | 14,228 |
| Charge for the year | 19 | 563 | 582 |
| Eliminated on disposal | (21) | (2,467) | (2,488) |
| At 31 December 2018 | <u>106</u> | <u>12,216</u> | <u>12,322</u> |
| Carrying amount | | | |
| At 31 December 2018 | <u><u>39</u></u> | <u><u>1,786</u></u> | <u><u>1,825</u></u> |
| At 31 December 2017 | <u><u>78</u></u> | <u><u>2,393</u></u> | <u><u>2,471</u></u> |

Depreciation expenses of £580,000 are included within cost of sales (2017: £662,000); £2,000 is included within administrative expenses (2017: £12,000).

During the year, the Company disposed of property, plant and equipment with an aggregate net book value of £129,000 (2017: £13,000). The Company made a loss on disposal of £129,000 (2017: loss of £13,000).

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Intangible assets

| | Software £ 000 |
|---------------------------------|-------------------|
| Cost | |
| At 1 January 2018 | 895 |
| Additions | 8 |
| Disposals | (5) |
| At 31 December 2018 | <u>898</u> |
| Accumulated amortisation | |
| At 1 January 2018 | 562 |
| Amortisation charge | 82 |
| Eliminated on disposals | (1) |
| At 31 December 2018 | <u>643</u> |
| Carrying amount | |
| At 31 December 2018 | <u>255</u> |
| At 31 December 2017 | <u>333</u> |

Amortisation expenses of £71,000 are included within cost of sales (2017: £74,000); £11,000 is included within administrative expenses (2017: £5,000).

14 Investments

| | £ 000 |
|-------------------------|---------------|
| Cost | |
| At 1 January 2018 | 29,649 |
| Disposals | (9,216) |
| At 31 December 2018 | <u>20,433</u> |
| Provision | |
| At 1 January 2018 | 9,216 |
| Eliminated on disposals | (9,216) |
| At 31 December 2018 | <u>-</u> |
| Carrying amount | |
| At 31 December 2018 | <u>20,433</u> |
| At 31 December 2017 | <u>20,433</u> |

The disposal in the year relates to the dissolution of G4S Policing Solutions Limited on 2 May 2018.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Investments (continued)

Judgement is required to determine whether indicators of impairment exists. Where impairment triggers are identified, the recoverable amount of an investment is generally determined by its value in use, which is derived from discounted cash flow calculations. The key inputs into the cash flow calculations include the estimation of the future results, cash flows, country specific growth rates and discount rates. Judgement is also required in relation to the achievability of the long term-business plan and macroeconomic assumptions underlying the valuation process.

Pre-tax cash flows for the first three years are based on the three-year business plan approved by the Board of G4S plc. Thereafter, the cash flows are based on long-term growth rates.

In the year, an impairment charge of £Nil (2017: £970,000) has been recorded in respect of the Company's investments.

Details of the subsidiary undertakings and other significant undertakings as at 31 December 2018, where the Company's holding is 20% or greater, are as follows:

| Subsidiary undertakings | Class of holding | Ownership | Registered address |
|--------------------------------------|------------------|-----------|---|
| G4S Monitoring Technologies Limited* | Ordinary | 100% | Southside, 105 Victoria Street, London, SW1E 6QT |
| Bridgend Custodial Services Limited* | Ordinary | 58.5% | Challenge House, International Drive, Tewkesbury Business Park, Tewkesbury, Gloucestershire, GL20 8UQ |

* Direct investment

15 Inventories

| | 2018 £ 000 | 2017 £ 000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 468 | - |
| Other inventories | 1,148 | 956 |
| | <u>1,616</u> | <u>956</u> |

Cost of inventories recognised as an expense of £960,000 (2017: £1,504,000) is included within cost of sales.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

16 Trade and other receivables

| | 2018 £ 000 | As restated 2017 £ 000 |
|--|----------------|------------------------------|
| Trade receivables | 22,781 | 23,665 |
| Provision for impairment of trade receivables | (162) | (76) |
| Net trade receivables | 22,619 | 23,589 |
| Amounts due from group undertakings (members of the G4S plc group) | 147,923 | 130,528 |
| Accrued income | 9,586 | 10,473 |
| Prepayments | 3,192 | 4,316 |
| Other receivables | 455 | 1,434 |
| Assets recognised for costs incurred to fulfil a contract | 8 | 1,068 |
| | <u>183,783</u> | <u>171,408</u> |

Included in amounts owed from group undertakings are loans of £146,904,000 (2017: £127,665,000) which are unsecured and repayable on demand. Interest is charged on these loans at LIBOR + 1.5% (2017: LIBOR + 1.5%). All other amounts owed from group undertakings are trading in nature, unsecured, interest-free and repayable on demand.

17 Cash and cash equivalents

Included in cash and cash equivalents is £112,000 (2017: £250,000) that is restricted and not available for general use by the Company as it is held on behalf of third parties.

18 Trade and other payables

| | 2018 £ 000 | As restated 2017 £ 000 |
|---|---------------|------------------------------|
| Trade payables | 15,891 | 11,415 |
| Accrued expenses | 25,931 | 23,482 |
| Amounts owed to group undertakings (members of the G4S plc group) | 22,545 | 25,394 |
| Social security and other taxes | 13,336 | 15,241 |
| Other payables | 2,981 | 3,422 |
| Deferred income | 3,303 | 3,211 |
| | <u>83,987</u> | <u>82,165</u> |
| Non-current trade and other payables | | |
| Deferred income | <u>8,943</u> | <u>10,263</u> |
| | <u>92,930</u> | <u>92,428</u> |

Amounts owed to group undertakings are trading in nature, unsecured, interest-free and repayable on demand.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

19 Obligations under leases

Finance leases

| | Minimum lease payments £ 000 | Interest £ 000 | Present value £ 000 |
|----------------------|------------------------------------|-------------------|------------------------|
| 2018 | | | |
| Within one year | 79 | (1) | 78 |
| | <u>79</u> | <u>(1)</u> | <u>78</u> |
| | | | |
| | Minimum lease payments £ 000 | Interest £ 000 | Present value £ 000 |
| 2017 | | | |
| Within one year | 2,277 | (179) | 2,098 |
| In two to five years | 79 | (1) | 78 |
| | <u>2,356</u> | <u>(180)</u> | <u>2,176</u> |

The present values of future finance lease payments are analysed as follows:

| | 2018 £ 000 | 2017 £ 000 |
|-------------------------|---------------|---------------|
| Current liabilities | 78 | 2,098 |
| Non-current liabilities | - | 78 |
| | <u>78</u> | <u>2,176</u> |

Operating leases

The total future value of minimum lease payments is as follows:

| | 2018 £ 000 | As restated 2017 £ 000 |
|----------------------|---------------|------------------------------|
| Within one year | 16,923 | 18,044 |
| In two to five years | 1,683 | 2,099 |
| In over five years | 14 | 24 |
| | <u>18,620</u> | <u>20,167</u> |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £37,194,000 (2017: £34,495,000).

As a result of the detailed work carried out to assess the impact of IFRS 16 - Leases, effective 1 January 2019, the Company identified that non-cancellable operating lease rentals falling due within one year disclosed at 31 December 2017 were understated. Therefore it has re-presented the commitments above. The adjustment has no effect on the statement of financial position at 31 December 2017 or the results for the year then ended.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Provisions

| | Onerous contracts £ 000 | Claims provisions £ 000 | Other provisions £ 000 | Total £ 000 |
|---------------------------------------|-------------------------------|-------------------------------|------------------------------|----------------|
| At 1 January 2018 | 26,872 | 6,500 | 8,423 | 41,795 |
| Additional provisions | 8,900 | - | 4,671 | 13,571 |
| Utilisation of provision | (9,866) | - | (3,915) | (13,781) |
| Unused provision reversed | (1,100) | - | (1,905) | (3,005) |
| Increase due to unwinding of discount | 320 | - | - | 320 |
| At 31 December 2018 | <u>25,126</u> | <u>6,500</u> | <u>7,274</u> | <u>38,900</u> |
| Non-current liabilities | <u>-</u> | <u>-</u> | <u>2,661</u> | <u>2,661</u> |
| Current liabilities | <u>25,126</u> | <u>6,500</u> | <u>4,613</u> | <u>36,239</u> |

Management judgement is required in quantifying the Company's provisions, particularly in connection with claims and onerous customer contracts, which are based on a number of assumptions and estimates where the ultimate outcome may be different to the amount provided. Each of these provisions reflects the Company's best estimate of the probable exposure at 31 December 2018 and this assessment has been made having considered the sensitivity of each provision to reasonably possible changes in key assumptions. The Company is satisfied that it is unlikely that changes in these key assumptions will have a material impact on the Company's overall provisioning position in the next 12 months.

Onerous contracts

The present value of estimated future net cash outflows relating to onerous customer contracts is provided for where the unavoidable costs of meeting the obligations in a customer contract exceed the economic benefits expected to be received under the contract.

Under the UK Compass asylum seeker contract with the Home Office, the group provides accommodation, transportation and subsistence services for asylum seekers whilst their claims are being processed. This contract commenced in 2012 and will come to an end in August 2019. An onerous contract provision for this contract was first recognised in 2014. During the year £1,100,000 of the provision has been released as a result of an improvement in the latest forecasted cash flows. This credit has been recorded within specific items in the income statement. Given the short period remaining to the expiry of this contract, any potential future changes to key assumptions made when estimating its future losses are not expected to have a significant impact.

The additional provision of £8,900,000 relates to future unavoidable losses in relation to a contract. This charge has been recorded within specific items in the income statement. Refer to note 27 for further details.

Claims provision

The Company holds a claims provision of £6,500,000 related to the estimated cost of settlement of subcontractor claims from commercial disputes in relation to prior years.

Other provisions

A number of other provisions have been included within the financial statements. These provisions include commitments in regards to restructuring, employee benefits, asset replacement and other legal costs.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

21 Pension and other schemes

The G4S plc group operates both defined contribution and defined benefit pension schemes. Employer contributions to these schemes are fixed at a set level or set percentage of employees' pay. Total pension costs of £7,139,000 (2017: £5,990,000) have been charged to the income statement.

Defined contribution pension scheme

The pension charge recognised in the income statement for the defined contribution scheme represents the contributions payable for the year.

Defined benefit pension schemes

The defined benefit scheme is comprised of three sections: GSL, Group 4 and Securicor. The UK scheme is closed to future accrual apart from some sub-sections of the GSL section, and for most members defines the pension based on final salary.

Certain sub-sections of the GSL section have historically remained open to provide a facility to accept former public-sector employees who join the G4S plc group through outsourcings. In the Group 4 and Securicor sections, members retain their link to final salary where appropriate on their benefits accrued up to closure in 2011.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the defined benefit schemes to the Company, the pension charge recognised in the income statement represents the contributions payable for the year.

Further information on the defined benefit schemes has been disclosed in the consolidated financial statements of G4S plc.

22 Called-up share capital

Allotted, called up and fully paid shares

| | 2018 | | 2017 | |
|----------------------------|---------------|---------------|---------------|---------------|
| | No. 000 | £ 000 | No. 000 | £ 000 |
| Ordinary shares of £1 each | <u>51,538</u> | <u>51,538</u> | <u>51,538</u> | <u>51,538</u> |

23 Share-based payments

The shares are allocated under G4S plc performance share plan and vest after three years, to the extent that certain non-market performance conditions are met. The vesting occurs on the third anniversary of the date the shares were allocated conditionally.

The weighted average remaining contractual life of conditional share allocations outstanding at 31 December 2018 was 11 months (2017: 14 months). The weighted average share price at the date of allocation of shares allocated conditionally during the year was 248p (2017: 295p). The contractual life of all conditional allocations was 3 years.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

24 Contingent liabilities

The investigation opened by the Serious Fraud Office (SFO) in 2013 in respect of the Company's Electronic Monitoring contract remains ongoing and the Company continues to engage and co-operate fully with the investigation. Based on currently available information, the Company is unable to make a reliable estimate of the financial effect of the SFO's investigation, and no provision has been made in respect of it.

25 Related party transactions

Summary of transactions with joint ventures

The immediate parent company participates in a number of joint ventures held within the G4S plc group via an investment partnership agreement with Semperian PPP Investment Partners Group Limited. Sales are made to these joint ventures in the normal course of business. The significant transactions of the Company with these joint venture companies are:

| | Services/ sales to | Amounts receivable | Services/ sales to | Amounts receivable |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2018 | 2017 | 2017 |
| | £ 000 | £ 000 | £ 000 | £ 000 |
| Bridgend Custodial Services Limited* | 55,211 | 5,665 | 52,818 | 5,671 |
| Fazakerley Prison Services Limited | 40,402 | 4,126 | 39,326 | 3,825 |
| Onley Prison Services Limited | 17,142 | 1,754 | 17,206 | 1,720 |

* The investment in this joint venture is now owned directly by the Company.

26 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is G4S plc.

The Company's ultimate parent undertaking and ultimate controlling party is G4S plc, a company incorporated in the United Kingdom. G4S plc is also the parent undertaking of both the smallest and largest groups which include the results of the Company and for which consolidated financial statements are prepared.

Copies of the consolidated financial statements of G4S plc are available upon request from the Company Secretary, 5th Floor, Southside, 105 Victoria Street, London, SW1E 6QT.

27 Events after the end of the reporting period

On 1 April 2019, the Company announced that by mutual agreement with the Ministry of Justice it will permanently transfer the management of HMP Birmingham to Her Majesty's Prison and Probation Service (HMPPS) with effect from 1 July 2019. The Company believes that potential termination costs are materially contained within the provision provided at the 2018 year end.

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Adoption of IFRS 15

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018) and the beginning of the earliest period presented (1 January 2017), and in the income statement for the year ended 31 December 2017:

| | | IAS 18 carrying amount | Reclassi- fication | Remeasure- ments | IFRS 15 carrying amount |
|---|-----------|---------------------------|-----------------------|---------------------|----------------------------|
| | | 31 Dec 2017 | | | 1 Jan 2018 |
| | Note | £000 | £000 | £000 | £000 |
| Deferred income | (i) | (1,887) | - | (11,587) | (13,474) |
| Other receivables | (i), (ii) | 1,468 | (34) | - | 1,434 |
| Assets recognised for costs incurred to fulfil a contract | (i), (ii) | - | 34 | 1,034 | 1,068 |
| Deferred tax assets | (i) | 7,996 | - | 1,794 | 9,790 |

| | | IAS 18 carrying amount | Reclassi- fication | Remeasure- ments | IFRS 15 carrying amount |
|---|-----------|---------------------------|-----------------------|---------------------|----------------------------|
| | | 31 Dec 2016 | | | 1 Jan 2017 |
| | Note | £000 | £000 | £000 | £000 |
| Deferred income | (i) | (1,140) | - | (12,912) | (14,052) |
| Other receivables | (i), (ii) | 4,777 | (165) | - | 4,612 |
| Assets recognised for costs incurred to fulfil a contract | (i), (ii) | - | 165 | 1,153 | 1,318 |
| Deferred tax assets | (i) | 10,442 | - | 1,999 | 12,441 |

| Statement of profit or loss and other comprehensive income (extract) 2017 | | As originally presented | IFRS 15 | As restated |
|---|------|----------------------------|---------|-------------|
| | Note | £000 | £000 | £000 |
| Revenue | (i) | 333,948 | 1,325 | 335,273 |
| Cost of sales | (i) | (286,245) | (119) | (286,364) |
| Income tax expense | (i) | (5,703) | (205) | (5,908) |

G4S Care and Justice Services (UK) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

28 Adoption of IFRS 15 (continued)

The impact on the Company's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

| | Note | 2018 £ 000 | 2017 £ 000 |
|--|-----------|----------------------|------------------------|
| Retained earnings/(accumulated losses) | | 20,326 | (11,006) |
| Recognition of deferred income | (i) | (11,587) | (12,912) |
| Recognition of asset for costs incurred to fulfil a contract | (i), (ii) | 1,034 | 1,153 |
| Increase in deferred tax assets | (i) | 1,794 | 1,999 |
| Adjustment to retained earnings from adoption of IFRS 15 | | <u>(8,759)</u> | <u>(9,760)</u> |
| Opening retained earnings/(accumulated losses) at 1 January | | <u><u>11,567</u></u> | <u><u>(20,766)</u></u> |

(i) Accounting for costs incurred to fulfil a contract

In certain contracts, the Company receives payment at the inception of the contract to compensate for mobilisation costs incurred at the inception of the contract. Historically, such payments have been recognised as revenue as the Group has incurred the related costs. Under IFRS 15, such amounts have been recorded as deferred income and recognised as services are provided. The effect of this change has been to increase revenue recognised by £1,325,000 and reduce the deferred income liability at 31 December 2017 by £1,325,000 (1 January 2017: increase by £12,912,000). Cost of sales has been increased by £119,000, with a corresponding decrease in assets recognised for costs incurred to fulfil a contract at 31 December 2017 of £119,000 (1 January 2017: increase of £1,153,000). A deferred tax asset of £1,794,000 (2017: £1,999,000) and additional deferred tax expense of £205,000 (2017: £Nil) were also recognised, resulting in a net adjustment to retained earnings of £8,759,000 (2017: £9,760,000).

(ii) Presentation of assets recognised for costs incurred to fulfil a contract

The Company has changed the presentation of assets recognised for costs incurred to fulfil a contract on adoption of IFRS 15. They were previously disclosed within other receivables and are now separately disclosed in note 16.