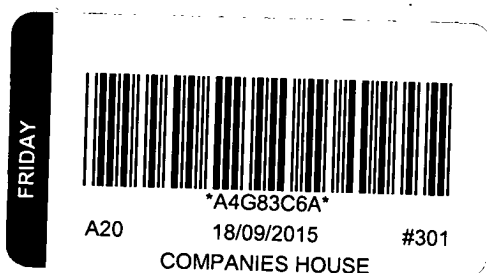


T-Systems Limited

**Annual report and financial statements
for the year ended 31 December 2014**

Registered number: 01668706



T-Systems Limited

Annual report and financial statements for the year ended 31 December 2014

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T-Systems Limited

Directors and advisors

Directors

Daniel Giebel
Dr. Frank-Stephan Hardt
Casper Malig

Company Secretary

J J L D'Silva

Independent auditors

PricewaterhouseCoopers LLP
Exchange House
Central Business Exchange
Midsummer Boulevard
Central Milton Keynes
MK9 2DF

Bankers

The Royal Bank of Scotland
Milton Keynes Corporate Office
2nd Floor
300 Silbury Boulevard
Central Milton Keynes
MK9 2ZF

Solicitors

Kimbells Freeth,
Power House
Harrison Close
Knowlhill
Milton Keynes
Buckinghamshire
MK5 8PA

Registered office

21st floor Euston Tower
286 Euston Road
London
NW1 3DP

T-Systems Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report on the company for the year ended 31 December 2014.

Review of the business

The company's key financial and other performance indicators during the year were as follows:

	2014	2013	Change
	£'000	£'000	%
Turnover	362,145	406,294	(10.9)
Operating (loss) / profit	(4,229)	8,108	(152.2)
(Loss) / profit for the financial year	(9,149)	6,052	(251.2)
Capital investment	18,174	15,582	16.6
Net assets	8,689	20,047	(56.7)
Average headcount	811	835	(2.9)

The dispute situation which began in Q1 2013 with one of the major customers of T-Systems Limited was successfully settled in May 2015 with an amendment to the existing Master Service Agreement. The settlement agreement guarantees T-Systems Limited a solid and steady contractual relationship with this specific customer till 2018. After the joint signature under the settlement agreement the customer offered T-Systems Limited new business opportunities.

The turnover decrease of 10.9% in 2014 has arisen as a result of a declining demand for telecommunication services provided by the business unit International Carrier Solutions and Services (ICSS). Less ICT services were also demanded by two major customers of the oil and gas industry, who reduced their overall demand for Information Technology and Telecommunications services due to the oil price development in 2014. Furthermore a contract with a customer of the consumer goods industry was phased-out at the end of 2013 with the consequence that revenue in 2014 could not be generated. Another reason for the turnover decrease was a reduction of the T-Systems intercompany business. The turnover of the business with the other customers was maintained at the level of 2013. A contract with a company of the brewery industry signed in December 2013 led in 2014 to a substantial turnover push and will be important for the revenue growth in 2015 and the following years.

The operating loss in 2014 has arisen as a result of the significant turnover decrease which could not be compensated with new business and cost saving programmes in multiple business units of the Delivery organisation.

The loss after tax has decreased from a profit before tax in the prior year, in line with the decrease in operating profits.

Capital investment has increased in 2014 as a result of two major projects; the development and implementation of an internal Order-to-Cash Tool and the implementation of an automated end-to-end process on one of the major customer contracts which will improve the customer result of this contract significantly.

Net assets have decreased in 2014 as a result of trading losses and the loss on pension scheme in the year 2014.

The average headcount decreased in 2014 as a result of the cost saving programmes which also led to a head count reduction of 24 FTE's.

T-Systems Limited

Strategic report for the year ended 31 December 2014

Future developments

T-Systems Limited overall strategic goal is sustainable profitable growth. In 2020 the company aims for a revenue volume of £500m and an Ebit-margin of 8.5%. The senior management team has therefore set up various improvement programmes which enables a continuous growth in revenue and profitability of the company. The improvement of profitability is based on further restructuring projects especially in Delivery and Cross Functions. The positive results of the automation on one of the major customer contracts led to a further automation project on the largest customer project of T-Systems Limited.

The senior management has also set up a revenue push programme to win new local and international logos. The recent winning of three new logos is a good and promising indicator of the success of this growth strategy.

Principal risks and uncertainties

Risk management - the company's operations expose it to a variety of risks principally delivery risk, and market and economic risk. Specific business risks are properly monitored and reported as they arise. Where a risk exposure is identified, suitable counteractions are implemented to mitigate the risk. The risk management system is a vital part of the overall company governance system.

Delivery risk

- The company operates a series of long term contracts which expose it to changes in technology and shifts in customer business circumstances over the lifetime of the contracts. Technology risks are managed through working closely with the T-Systems Group as a whole to make the UK operations an integral part of the global delivery function of the group, thereby being able to provide services to UK customers from the most appropriate point of production. Changes in customer business circumstances are managed through working closely with customers to understand their requirements and amend contracts to suit their needs as they develop.

Market and economic risk

- Various scenarios are modelled to establish the financial outcome on a worst case basis of deterioration in the market in which we operate.

The Strategic Report was approved by the Board of Directors on 29th June 2015 and signed on its behalf by:



Dr. Frank-Stephan Hardt

Director

Date 02/06/2015

T-Systems Limited

Directors' report for the year ended 31 December 2014

The directors present their report and audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activities of the company are computer and telecommunication services.

Results and dividends

The loss for the financial year amounted to £9,149,000 (2013: profit of £6,052,000). The directors do not recommend the payment of any dividends (2013: £nil).

Political and charitable contributions

During the year the company made charitable donations totalling £8,968 (2013: £5,077) to the charities: Cancer Research UK £2,101 (2013: £nil), Alzheimer's Association £1,000 (2013: £nil), Water Aid £1,290 (2013: £nil), Dame Kelly Holmes Trust £1,090 (2013: £nil), Oxfam £760 (2013: £nil), British Heart Foundation £727 (2013: £nil), Cure Rett £500 (2013: £nil), Blind Veterans Charity £485 (2013: £nil), Marie Curie Cancer Care £485 (2013: £nil), UNICEF £nil (2013: £4,544), MacMillan Cancer Support £nil (2013: £338) and other £530 (2013: £195).

The company made no political contributions in the year (2013: £nil).

Financial risk management

The company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, cash flow risk and foreign currency risk:

- Credit risk - the company's policies are aimed at minimising credit risk from customers, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in Note 11 to the financial statements.

The company manages its own cash deposits with financial institutions after consideration of advice from T-Systems Group Treasury on the credit rating and overall financial profile of those financial institutions.

- Liquidity risk - the company has the capability of maintaining debt finance to ensure that it has sufficient funds for operations. Deutsche Telekom Aktiengesellschaft (the ultimate parent company) will support future operations approved by the Board with additional financing on strictly commercial terms as appropriate.
- Cash flow risk - the company manages the risk of exposure to variability in cash flows, such as foreign exchange fluctuation, by use of derivatives as explained below.
- Foreign currency risk - the company's primary transactional currency is Sterling. In order to reduce exposure to the variability of foreign exchange rates on transactions in other currencies, the company uses forward foreign currency contracts, held indirectly via T-Systems Group Treasury.

T-Systems Limited

Directors' report for the year ended 31 December 2014 (continued)

Directors of the company

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

Daniel Giebel
Dr. Frank-Stephan Hardt
Casper Malig

Qualifying third party indemnities

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

Employee involvement

During the year, the policy of providing employees with information about the company has been continued through staff forums, development programs and other company events. T-Systems Limited has an elected Employee Forum to comply with the UK ICE (Information and Consultation of Employees) regulations. This group meets monthly and is affiliated to the Group's European Works Council. The general company situation including the financial performance is communicated to this group twice yearly and specific local company changes are consulted on as they arise.

More general communication to the employees is delivered via the Monthly Business Update which is cascaded via management lines and posted on the Company's intranet and the monthly video message from the managing director which is again available via the Company's intranet. Most employees are entitled to participate in the annual bonus scheme which pays out against a mix of group and local company performance indicators such as revenue and EBIT and personal targets.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

T-Systems Limited

Directors' report for the year ended 31 December 2014 (continued)

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cash flow risk are described in the strategic and directors' reports on pages 2 and 4 respectively.

The company has considerable financial resources available to it being part of the larger T-Systems Group (ultimately Deutsche Telekom Aktiengesellschaft), together with long-term contracts held with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

T-Systems International GmbH (the Company's immediate parent company), has given the necessary assurances that sufficient resources will be made available for the foreseeable future so that the company can meet its liabilities as and when they fall due. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the directors' report and financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each person who was a director at the date of approving this report is aware:

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

T-Systems Limited


Directors' report for the year ended 31 December 2014 (continued)

Independent auditors

The auditors for the year ended 31 December 2014 were PricewaterhouseCoopers LLP.

A resolution will be put to the shareholders at the company's Annual General Meeting to reappoint PricewaterhouseCoopers LLP as the company's auditors.

By order of the board


J. J. D'Silva
Company Secretary
Date: 02/09/2015

T-Systems Limited

Independent auditors' report to the members of T-Systems Limited

Report on the financial statements

Our opinion

In our opinion, T-Systems Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account and the statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

T-Systems Limited

Independent auditors' report to the members of T-Systems Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves


We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Mike Robinson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes

Date: 4/9/15

T-Systems Limited

Profit and loss account for the year ended 31 December 2014

		2014	2013
	Note	£'000	£'000
Turnover	2	362,145	406,294
Cost of sales		(340,028)	(375,919)
Gross profit		22,117	30,375
Administrative expenses		(26,346)	(22,267)
Operating (loss) / profit	3	(4,229)	8,108
(Loss) / profit on disposal of fixed assets		(2,224)	18
(Loss) / profit on ordinary activities before interest and taxation		(6,453)	8,126
Interest receivable and similar income	6	136	367
Interest payable and similar charges	7	(2,691)	(2,420)
(Loss) / profit on ordinary activities before taxation		(9,008)	6,073
Tax on (loss) / profit on ordinary activities	8	(141)	(21)
(Loss) / profit for the financial year	20	(9,149)	6,052

The results of the company reported above relate entirely to continuing operations.

There is no material difference between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for the financial year stated above and their historical costs equivalents.

T-Systems Limited

Statement of total recognised gains and losses for the year ended 31 December 2014

		2014	2013
	Note	£'000	£'000
(Loss) / profit for the financial year		(9,149)	6,052
Actuarial loss on pension scheme	14	(2,761)	(1,851)
Movement on deferred tax relating to pension scheme	8	552	370
Total recognised (losses) / gains relating to the year		(11,358)	4,571


T-Systems Limited

Balance sheet at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	9	4,065	5,318
Tangible assets	10	44,657	50,866
		48,722	56,184
Current assets			
Debtors:			
Amounts falling due within one year	11	232,585	167,630
Amounts falling due after more than one year	11	1,809	2,124
		234,394	169,754
Cash at bank and in hand		2,036	14,158
		236,430	183,912
Creditors: amounts falling due within one year	13	(269,854)	(215,659)
Net current liabilities		(33,424)	(31,747)
Total assets less current liabilities		15,298	24,437
Provisions for liabilities	15	(4,192)	(4,149)
Net assets excluding pension deficit		11,106	20,288
Defined benefit pension deficit	14	(2,417)	(241)
Net assets including pension deficit		8,689	20,047
Capital and reserves			
Called up share capital	19	550	550
Share premium account	20	15,000	15,000
Other reserves	20	230,754	230,754
Profit and loss account	20	(237,615)	(226,257)
Total shareholders' funds	21	8,689	20,047

The notes on pages 13 to 35 form part of the financial statements

The financial statements on pages 10 to 35 were approved by the Board of Directors on 29th June 2015 and signed on its behalf by:


Dr. Frank-Stephan Hardt
Director

Date 02/09/2015

Registered number: 01668706

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The financial statements have been prepared on the going concern basis because the immediate parent undertaking (T-Systems International GmbH) has given the necessary assurances such that sufficient resources will be made available for the foreseeable future so that the company can meet its liabilities as and when they fall due.

Cash flow statement

The directors have taken advantage of the exemption in FRS 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned by T-Systems International GmbH and its parent publishes consolidated financial statements that include the cashflows of the Company.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Positive goodwill arising on acquisitions is capitalised as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets

Intangible assets relate to externally acquired software licences. They are capitalised at cost and stated at cost less accumulated amortisation.

Amortisation is provided in order to write off the cost on a straight line basis over the estimated useful economic life, subject to a maximum of 20 years.

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

Fixed assets

All fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Such cost includes those directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense when incurred.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Plant and machinery	-	2 to 12 years
Telecom equipment	-	2 to 12 years
Office equipment	-	2 to 23 years
Software	-	Over the life of the contract and up to seven years
In course of construction	-	No depreciation is provided on assets in the course of construction

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Fixed assets (continued)

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

Rendering of services

Revenue from computing and telecommunication services is recognised in line with the stage of completion of an individual customer contract. Usually revenue is recognised on a straight line basis where this is representative of the stage of completion. Amounts relating to more than one accounting period are deferred and recognised over the relevant delivery period. Unrecognised contract revenue is included as deferred income in the balance sheet.

Where a contract contains several elements, the individual elements are accounted for separately where appropriate.

Interest income

Revenue is recognised as interest accrues.

Long term contracts

Where the outcome of a long term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion. This is measured by the proportion of contract costs incurred to date in relation to the estimated total contract costs.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Long term contracts (continued)

Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised only to the extent of recoverable contract costs. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company is a member of a group pension plan with an insurance company and makes contributions into employee accounts on a money purchase basis. The assets in the scheme are held separately from those of the company in an independently administered fund. The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Defined benefit scheme

All retirement benefits are accounted for in accordance with FRS 17.

The company operates a defined benefit scheme comprising two separate sections. The scheme is closed to new members.

Independent actuaries prepare valuations of the defined benefit scheme at least every three years and in accordance with their recommendations the company makes contributions over the expected working life of the employees.

These triennial valuations are updated each year to meet the accounting requirements of FRS 17. The valuations are prepared using the projected unit credit method.

A credit representing the expected return on the assets of the scheme during the year is included within other finance income. This is based on the market value of the assets of the scheme at the start of the financial year. A charge representing the expected increase in the liabilities of the scheme during the year is included within other finance charge. This arises from the liabilities of the scheme being one year closer to payment.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions. Current and past service costs, to the extent they have vested, and gains or losses on curtailments and settlements are recognised as charges or credits against operating profit in the profit and loss account. Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Share based payments

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the accounting period.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate.

Equipment leased to customers

Equipment leased to customers under finance leases is deemed to be sold at normal selling value which is taken to turnover at the inception of the lease. Debtors under finance leases represent outstanding amounts due under these agreements less finance charges allocated to future periods. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments.

2 Turnover

Turnover is stated net of value added tax and arises wholly from the company's principal activity.

An analysis of turnover by geographical market is given below:

	2014	2013
	£'000	£'000
United Kingdom	327,887	367,339
Germany	30,875	36,365
Other Europe	2,991	2,197
United States of America	392	250
Other Regions	-	143
	362,145	406,294

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

3 Operating (loss) / profit

This is stated after charging / (crediting):

	2014	2013
	£'000	£'000
Depreciation of owned fixed assets	20,138	20,729
Amortisation	1,173	1,302
Net gain on foreign currency translation	(146)	(1,075)
Operating leases rentals: plant and machinery	-	-
Operating leases rentals: other	6,312	6,410
Services provided by the company's auditor		
Fees payable for the audit	91	77
Fees payable for other services	70	-

4 Staff costs

	2014	2013
	£'000	£'000
Wages and salaries	65,560	62,302
Social security costs	7,003	7,011
Other pension costs (note 14)	4,893	4,889
	77,456	74,202

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

4 Staff costs (continued)

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

	2014	2013
	No.	No.
Management	5	6
Production	607	640
Administration	95	96
Sales	104	93
	811	835

5 Directors emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments	981	1,151
Company contributions paid to money purchase pension scheme	50	56

Included within aggregate emoluments above is an amount of £nil paid to a director as compensation for loss of office (2013: £nil). At 31 December 2014 retirement benefits were accruing to one director under defined contribution pension schemes (31 December 2013: one).

Highest paid director

Total amount of emoluments and amounts (excluding shares) payable to the highest paid director in 2014 was £556,000 (2013: £532,000).

Contributions to the defined contribution pension scheme in respect of the highest paid director were £32,000 (2013: £26,000).

6 Interest receivable and similar income

	2014	2013
	£'000	£'000
Interest receivable from other group undertakings	136	256
Net finance income related to defined benefit pension scheme	-	111
	136	367

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

7 Interest payable and similar charges

	2014	2013
	£'000	£'000
Interest payable to other group undertakings	2,393	2,192
Net finance cost related to defined benefit pension scheme	3	-
Bank and other interest payable	295	228
	2,691	2,420

8 Tax on (loss) / profit on ordinary activities

(a) Tax on (loss) / profit on ordinary activities

	2014	2013
	£'000	£'000
Current tax		
UK corporation tax on (loss)/profit for the year	-	-
Research & development tax credit	(132)	-
Total current tax	(132)	-
Deferred tax		
Movement on the deferred tax liability of the defined benefit pension scheme	543	349
Deferred tax relating to the pension scheme recognised in the Statement of total recognised gains and losses	(552)	(370)
Adjustment in respect of deferred tax rate change	-	-
Total deferred tax	(9)	(21)
Total tax on (loss)/profit on ordinary activities	(141)	(21)

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Tax on (loss) / profit on ordinary activities (continued)

(b) Factors affecting current tax charge for the year

The tax assessed for the year is higher (2013: lower) than the standard rate of corporation tax in the UK: 21.5% (2013: 23.25%).

The differences are reconciled below:

	2014	2013
	£'000	£'000
(Loss) / profit on ordinary activities before taxation	(9,008)	6,073
(Loss) / profit on ordinary activities at standard rate of tax of 21.5% (2013: 23.25%)	(1,937)	1,412
Expenses not deductible for tax purposes	269	124
Depreciation in advance of capital allowances	1,245	2,735
Loss on disposal of fixed assets	993	10
Research and development tax credit	(132)	-
Brought forward losses utilised	(564)	(4,229)
Short term timing differences	(6)	(52)
Current tax for the year	(132)	-

(c) Factors that may affect future tax charges

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £60,000 and reduce the tax expense for the period by £60,000.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Tax on (loss) / profit on ordinary activities (continued)

(d) Deferred tax

A deferred tax asset in relation to the company's capital allowances in advance of depreciation, tax losses and other timing differences has not been recognised as there is insufficient evidence that the asset will be recoverable. The asset will become recoverable once the company generates taxable profits.

The deferred tax asset not recognised in the financial statements is as follows:

	2014 £'000	2013 £'000
Capital allowances in advance of depreciation	41,926	39,952
Carry forward of tax losses	-	8
Other timing differences	769	231
	42,695	40,191

The deferred tax included in the balance sheet is as follows:

	2014 £'000	2013 £'000
Included in defined benefit pension liability (note 14)	604	61
At 1 January	61	(288)
Deferred tax charge in profit and loss account	(9)	(21)
Deferred tax charge recognised in the Statement of total recognised gains and losses	552	370
At 31 December	604	61

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

9 Intangible assets

	Goodwill	Licenses	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2014	7,504	6,961	14,465
Additions	-	662	662
Disposals	-	(1,218)	(1,218)
At 31 December 2014	7,504	6,405	13,909
Accumulated amortisation:			
At 1 January 2014	3,313	5,834	9,147
Charge for the year	750	423	1,173
Disposals	-	(476)	(476)
At 31 December 2014	4,063	5,781	9,844
Net book value:			
At 31 December 2014	3,441	624	4,065
At 31 December 2013	4,191	1,127	5,318

Goodwill:

Goodwill relates to the acquisition of Gedas United Kingdom Limited. It is being amortised over the directors' estimate of its useful economic life of 10 years.

Licences:

Amortisation is provided in order to write off the cost on a straight line basis over the estimated useful economic life, subject to a maximum of 20 years.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

10 Tangible assets

	Software	Plant & Machinery	Telecom equipment	Office equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost:						
At 1 January 2014	20,114	204,383	12,601	21,752	3,643	262,493
Additions	1,542	7,512	-	109	8,349	17,512
Transfers	3,489	1,571	-	23	(5,083)	-
Disposals	(58)	(10,089)	(1,517)	(563)	(2)	(12,229)
At 31 December 2014	25,087	203,377	11,084	21,321	6,907	267,776
Accumulated depreciation:						
At 1 January 2014	17,872	161,733	11,551	20,471	-	211,627
Charge for the year	2,255	16,962	222	699	-	20,138
Disposals	(57)	(6,834)	(1,357)	(398)	-	(8,646)
At 31 December 2014	20,070	171,861	10,416	20,772	-	223,119
Net book amount:						
At 31 December 2014	5,017	31,516	668	549	6,907	44,657
At 31 December 2013	2,242	42,650	1,050	1,281	3,643	50,866

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

11 Debtors

	2014	2013
	£'000	£'000
Amounts falling due within one year		
Trade debtors	35,603	39,438
Amounts owed by group undertakings	137,564	78,307
Other debtors	1,971	172
Prepayments and accrued income	55,951	47,852
Finance lease debtor (note 12)	1,496	1,861
	232,585	167,630
Amounts falling due after more than one year		
Finance lease debtor (note 12)	1,809	2,124
	234,394	169,754

Amounts owed by group undertakings relates to day to day trading activities and as such is an unsecured rolling balance with standard group invoicing repayment terms.

12 Finance lease debtor

	2014	2013
	£'000	£'000
Total receivable within one year	1,555	1,962
Less: Interest allocated to future periods	(59)	(101)
	1,496	1,861
Total receivable within two to five years	1,876	2,198
Less: Interest allocated to future periods	(67)	(74)
	1,809	2,124
Net carrying amount	3,305	3,985

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

13 Creditors: amounts falling due within one year

	2014	2013
	£'000	£'000
Trade creditors	5,600	3,331
Amounts owed to group undertakings	84,933	94,046
Taxation and social security	2,087	10,089
Other creditors	2,261	2,058
Unsecured loan	16,382	-
Accruals and deferred income	73,591	56,135
Loan from group undertaking	85,000	50,000
	269,854	215,659

Included within amounts owed to group undertakings is a loan from Deutsche Telekom Aktiengesellschaft, the company's ultimate parent company.

The rate of interest payable on the loan is six months LIBOR +0.75%, with interest payable monthly.

The term of repayment on this loan is the nominal amount of the loan and the accrued interest thereon, due on 19 July 2015.

The remaining amount owed to group undertakings relates to day to day trading activities and as such is an unsecured rolling balance with standard group invoicing repayment terms.

The unsecured loan relates to financing provided by a supplier in October 2014 in order to meet certain obligations.

The rate of interest payable on the loan is 2.50% per annum.

The term of repayment on this loan is the nominal amount of the loan and the accrued interest, payable quarterly in equal instalments, between January 2015 and October 2015.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions

The company operates both defined benefit and money purchase arrangements for its employees and directors which are sections of the T-Systems Ltd Pension Scheme. The Scheme is funded and is administered by professional pension administrators Capita Hartstead Limited.

(a) Defined contribution section

The company's contributions to the money purchase section during the year amounted to £4,591,000 (2013: £4,616,000). There were outstanding contributions at the balance sheet date of £374,000 (2013: £379,000).

(b) Defined benefit section

T-Systems Limited's defined benefit obligations are in respect of the T-Systems Ltd Pension Scheme (the "Scheme") and the T-Systems section of the Prudential Platinum Plan (the "Plan").

The Scheme comprises two separate sections

- the Volkswagen section, and
- the T-Systems section

The Prudential Platinum Plan was set up at 1 April 2011 to cover employees transferring from E.ON as part of a global T-Systems International deal. The transferees were provided with the opportunity to transfer their accrued past service from the Electricity Supply Pension Scheme (the "ESPS") into the Plan. This transfer of assets in respect of members' past service took place in 2012 and therefore the disclosures allow for the acquisition of these assets and past service obligations by the Plan.

There was a complete actuarial valuation of the scheme as at 31 December 2010 (and an Actuarial Report as at 31 December 2012, which allowed for the Scheme's closure to future accrual). This has been rolled forward to 31 December 2014 allowing for cash flows and changes in market conditions.

Minor demographic effects such as actual salary increase and actual mortality experience have not been allowed for in the roll-forward, except to the extent that they are captured in the cash flows. If actual demographic experience differs significantly from the actuarial assumptions, then the results of the roll-forward could differ materially from the results of a full actuarial valuation of the Scheme carried out at the measurement date.

The defined benefit section of the scheme is closed to new members. The age profile of the active membership is rising, and under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

During calendar year 2014 there have been no special events that require special accounting treatment.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions (continued)

The financial assumptions used to calculate scheme liabilities under FRS 17 are as follows:

Valuation method	Projected Unit 2014	Projected Unit 2013
Discount rate	3.8% p.a.	4.5% p.a.
Retail Price inflation	3.2% p.a.	3.4% p.a.
Consumer Price inflation	2.2% p.a.	2.4% p.a.
Increases to pensions		
- April 1997 – September 2005 (LPI 5%)	2.95% p.a.	3.1% p.a.
- Post October 2005 (LPI 2.5%)	1.95% p.a.	2.0% p.a.
Salary increases	3.7% p.a.	3.9% p.a.
Life expectancy of a male aged 65 at end of year	23.6 yrs	23.4 yrs
Life expectancy of a female aged 65 at end of year	26.0 yrs	25.8 yrs

Mortality has been calculated using the S1NXA mortality table, with CMI 2010 future projections based on year of birth with a 1.5% pa long term improvement trend and 0.25% constant addition.

For IAS 19 (Revised 2011) purposes there is no longer any requirement for an expected return on assets assumption, as assets are assumed to increase in line with the discount rate rather than in line with a separate expected return on assets assumption. In order to maintain consistency between the figures reported by the Company and those reflected by its parent Deutsche Telekom Aktiengesellschaft, the expected return on assets assumption for FRS 17 purposes has been set equal to the discount rate of 3.8% (2013: 4.5%). This is the same methodology as used for the 31 December 2012 disclosure.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions (continued)

The scheme assets contain none of T-Systems Limited's own financial instruments or assets or property used by T-Systems Limited.

The assets in the scheme at 31 December 2014 were:

	2014	2013
	£'000	£'000
Equities (UK and Overseas)	22,219	21,758
Bonds	17,142	13,620
Cash/Other	87	94
Total market value of assets	39,448	35,472
Present value of scheme liabilities	(42,469)	(35,774)
Deficit in the scheme	(3,021)	(302)
Related deferred tax asset	604	61
Net pension deficit	(2,417)	(241)

Reconciliation of present value of scheme liabilities:

	2014	2013
	£'000	£'000
1 January	35,774	31,406
Current service costs	279	249
Interest costs	1,586	1,422
Plan participants' contributions	56	55
Actuarial loss	5,273	3,208
Gross benefits paid	(499)	(566)
31 December	42,469	35,774

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions (continued)

Reconciliation of fair value of scheme assets:

	2014	2013
	£'000	£'000
1 January	35,472	32,660
Expected return	1,583	1,533
Actuarial gain	2,512	1,357
Employer contribution	347	457
Plan participants' contributions	56	55
Administration costs paid	(23)	(24)
Gross benefits paid	(499)	(566)
31 December	39,448	35,472

The actual return on plan assets was £4,095,000 (2013: £2,891,000). It is estimated that the company will contribute £355,000 to the company's defined benefits plans during the year ending 31 December 2015.

The following amounts have been recognised in the profit and loss account:

	2014	2013
	£'000	£'000
Current Service cost	279	249
Administration costs paid	23	24
Total charge to operating (loss) / profit	302	273
Expected return on pension scheme assets	1,583	1,533
Interest on pension liabilities	(1,586)	(1,422)
Net interest charged to interest (payable)/receivable	(3)	111

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions (continued)

The following amounts have been recognised in the statement of total recognised gains and losses:

	2014	2013
	£'000	£'000
Actual return less expected return on pension scheme assets	2,512	1,357
Expected losses arising on scheme liabilities	-	(1,204)
Changes in assumptions underlying the present value of scheme liabilities	(5,273)	(2,004)
Actuarial loss recognised in the statement of total recognised gains and losses	(2,761)	(1,851)

Cumulative actuarial gain recognised in the statement of total recognised gains and losses:

	2014	2013
	£'000	£'000
At beginning of year	2,700	4,551
Actuarial (loss)/gain for the year	(2,761)	(1,851)
At end of year	(61)	2,700

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Pensions (continued)

Details of experience gains and losses for the year to 31 December

	2014	2013	2012	2011	2010
Present value of defined benefit obligations	(42,469)	(35,774)	(31,406)	(25,916)	(24,177)
Fair value of scheme assets	39,448	35,472	32,660	26,113	24,741
(Deficit)/surplus in scheme	(3,021)	(302)	1,254	197	564
Experience adjustments on plan assets	2,512	1,357	1,486	(414)	1,464
Experience adjustments on plan liabilities	-	(1,204)	(408)	2,121	(37)
Total amount recognised in the statement of total recognised gains and losses	(2,761)	(1,851)	391	(905)	(139)

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

15 Provisions for liabilities

	Asset retirement obligations	Onerous lease provision	Total
	£'000	£'000	£'000
At 1 January 2014	3,182	967	4,149
Arising during the year	202	509	711
Utilised in the year	-	(668)	(668)
At 31 December 2014	3,384	808	4,192

Asset retirement obligations

A provision is recognised for the costs to return leased premises to their original state and condition on the termination of the respective leases. Commitments in respect of these asset retirement obligations are due after one year.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to the property are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement. The unwinding of the discount is included within the profit and loss account.

Onerous lease provision

The company has provided for future lease payments in respect of two properties used for print operations in Bristol and Bromborough that were vacated during 2012. Amounts have been provided for in full (net of the minimum rental income receivable from the sublets of both sites) until the expiration of the leases in April 2023 and March 2033 respectively.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

16 Commitments under operating leases

At 31 December the company had annual commitments under non-cancellable operating leases as set out below.

	2014		2013	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	4,049	112	3,852	211
In two to five years	411	659	480	566
In over five years	2,215	-	2,604	-
	6,675	771	6,936	777

17 Related party transactions

The company has taken advantage of the exemption from disclosing related party transactions with fellow group members under FRS 8 on the grounds that the group is wholly owned by Deutsche Telekom Aktiengesellschaft whose consolidated financial statements are publicly available.

During the year ended 31 December 2014 the Company traded with Everything Everywhere Limited, a joint venture owned 50% by T-Systems Limited's ultimate parent company Deutsche Telekom Aktiengesellschaft.

The Company received and provided computer and telecommunication services in the normal course of business, as arms length transactions. Sales to Everything Everywhere Limited during the year totalled £144,847,000 (2013: £141,546,000) and net receivables at 31 December 2014 were £73,375,000 (2013: £45,310,000).

Following the resolution of the dispute early in 2015 with Everything Everywhere Limited, the Company recovered all accrued sums in relation to the dispute.

18 Share based payments

In the 2004 financial year, Deutsche Telekom Aktiengesellschaft introduced its first Mid-Term Incentive Plan (MTIP) to ensure competitive total compensation for the members of the Board of Management, senior executives of Deutsche Telekom Aktiengesellschaft, and other beneficiaries mainly from the United States and United Kingdom. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom Aktiengesellschaft and other participating Group entities that promotes mid and long-term value creation in the Group, and therefore aligns the interests of management and shareholders.

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

18 Share based payments (continued)

The MTIP is a cash-based plan pegged to two equally weighted share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50% of the amount is paid out, and if neither performance target is achieved, no payment is made.

The carrying amount of the liability relating to the cash-settled share-based payments at 31 December 2014 is £202,104 (2013: £221,000). No cash settled share-based payments had vested at 31 December 2014, nor at 31 December 2013.

19 Called up share capital

	2014		2013	
	No.	£'000	No.	£'000
Allotted and fully paid				
Ordinary shares of £1 each	550,001	550	550,001	550

20 Reconciliation of movement on reserves

	Called up share capital	Share premium account	Other reserves	Profit and loss account
	£'000	£'000	£'000	£'000
1 January 2014	550	15,000	230,754	(226,257)
Other recognised gains and losses	–	–	–	(2,209)
Loss for the financial year	–	–	–	(9,149)
31 December 2014	550	15,000	230,754	(237,615)
Pension deficit				(2,417)
Profit and loss reserve excluding pension deficit				(240,032)

T-Systems Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

21 Reconciliation of movements in shareholders' funds

	2014	2013
	£'000	£'000
(Loss) / profit for the financial year	(9,149)	6,052
Other recognised gains and losses	(2,209)	(1,481)
Net (decrease) / increase in shareholders' funds	(11,358)	4,571
Shareholders' funds at end of year	8,689	20,047

22 Ultimate parent undertaking

The company is wholly owned by T-Systems International GmbH which is the smallest group in which the results of the company are consolidated for statutory purposes. Deutsche Telekom Aktiengesellschaft is the company's ultimate parent company. Deutsche Telekom Aktiengesellschaft is incorporated in Germany and heads the largest group in which the results of the company are consolidated for statutory purposes and is the ultimate parent undertaking and controlling party of the company. The consolidated financial statements of Deutsche Telekom Aktiengesellschaft are available to the public and may be obtained from Friedrich-Ebert-Allee 140, 53113 Bonn, Germany.