T-SYSTEMS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Registered number: 01668706

T-SYSTEMS LIMITED

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T-SYSTEMS LIMITED

COMPANY INFORMATION

Directors	Jesper Kryhlmand (Appointed 2 July 2019) Thomas Deeg (Appointed 17 March 2020) Julian Hartung (Appointed 4 May 2020)
Company Secretary	J J L D'Silva
Registered office	6th Floor 20 Rathbone Place Fitzrovia London W1T 1HY
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Donington Court Pegasus Business Park Herald Way East Midlands DE74 2UZ
Bankers	The Royal Bank of Scotland 2nd Floor 152 Silbury Boulevard Central Milton Keynes MK9 1LT
Solicitors	Kimbells Freeth Davy Avenue Knowlhill Central Milton Keynes Buckinghamshire MK5 8HJ

T-SYSTEMS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Business review

The profit for the financial year amounted to £3,201,000 (2018: loss £2,159,000). The directors do not recommend the payment of any dividends (2018: £nil).

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

	2019	2018	Change
	£'000	£'000	%
Turnover	**182,912**	238,333	(23.3)
Operating profit / (loss)	**3,711**	(1,741)	N/A
Profit / (Loss) for the financial year	**3,201**	(2,159)	N/A
Capital investment	**3,206**	6,873	(53.4)
Net assets	**15,581**	13,311	17.1
Average headcount (number)	**354**	469	(24.5)

Turnover shows a reduction of 23.3% in comparison to the previous year. This was mainly driven by a decrease in operational activity relating to two key customer accounts, in line with agreed exit plans. This reduction associated with these customers was not fully offset by operational activity on the remaining customer base and new business.

The operating profit for the financial year shows an increase from the prior year loss. Following the significant restructuring programme in the previous year, the company saw a return to profit. This is a result of a right sized organisation with ongoing cost optimisation programmes.

The profit for the financial year shows an increase from the prior year loss in line with the increase in operating profits. Interest expense and other finance costs increased significantly due to the impact of IFRS 16.

Capital investment represents addition of tangible and intangible fixed assets. It has decreased in 2019 by 53.4%. There was no significant customer specific investment in the year. The main area of capital investment related to the fit out and move to new office locations.

Net assets have increased in 2019. The decrease in net current liabilities and impact of IFRS 16 accounting is offset by the decrease in the net book value of fixed assets, related to normal depreciation of existing assets and a reduction in capital investment. There was a moderate increase in the pension liability in comparison to 2018.

The average headcount decreased in 2019 as a result of continued re-structuring programme to align to the new Group structure, along with changes related to exits from customer contracts.

Principal risks and uncertainties

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 Risks

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 & 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. Specifically, the main factors which impact the company, such as, trends in the market, foreign exchange and interest rates and potential impacts of Brexit.

Future developments

T-Systems Limited overall strategic goal is sustainable profitable growth. The company is aiming for a continuous and sustainable growth with local small and medium enterprises. The senior management team has therefore set up further customer-centric sales programmes, which enable continuous growth in revenue and profitability. The recent winning of further new business throughout the last 12 months is a good and promising indicator of the success of this growth strategy.

By setting up further cost improvement programmes, the senior management will ensure that the company continuously increases its profitability especially in Delivery, Service and Cross Functions.

Statement by the directors in the performance of their statutory duties in accordance with s172(1) Companies Act 2006

In making decisions throughout the year ended 31 December 2019 the board of directors of Company T-Systems Limited have acted in a manner they consider would most likely promote the success of the company for the benefit of its members as a whole having regard to the stakeholders and matters as set out in s172 (1) (a-f) of the Act. The company has a clear culture and set of values as set out in the *employees' section of the directors' report on page 7.*

Factoring our stakeholders into our decision making

When carrying out impact assessments and making key decisions for the organisation it is important that we understand the needs and concerns of all stakeholders. This is done through stakeholder impact analysis being completed for all significant decisions that identifies the potential benefits and areas of concern for each stakeholder group and enables plans to be put in place to mitigate any risks identified and ensure that these are actioned. These stakeholder impact assessments assist directors when performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval. The key stakeholders identified by the Company are:

- Customers: The Board and the Company have always treated customers fairly and have been proactive in issue resolution, strategy development and communication thereon.
- Suppliers: The company has treated Suppliers in a fair and equitable manner based on market conditions.
- Employees: Employee representatives sit on an Employee Consultative Forum. Strategic business decisions are discussed with the representatives and a collaborative decision is made.
- Shareholders: The shareholders do not have representation on the board of directors but there is frequent and regular interaction with the shareholders. All strategic decisions are taken in a collaborative manner with the representative shareholders.
- Community and the environment: The company and its shareholders take the impact on the environment seriously. Measures are in place to recycle waste effectively. Going forward we are working with our landlords to identify whether we consume Green energy and if not to make a relevant contribution.

This report was approved by the board on 12 November 2020 and signed on its behalf by:

DocuSigned by:

Thomas Deeg

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Thomas Deeg

Director

T-SYSTEMS LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' confirmations

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

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

Principal activities

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

Results and dividends

The profit for the financial year amounted to £3,201,000 (2018: loss £2,159,000). The balance sheet results show net assets £15,581,000 (2018: £13,311,000). The directors do not recommend the payment of any dividends (2018: £nil).

Foreign branches

The company has a registered branch in Ireland. The branch is not trading and all trading activities are derived from within the United Kingdom.

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 16 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.
- Interest rate risk - Interest rate risk might arise when the company has borrowings with variable rates. In such case, the risk will be managed as part of a T-Systems group-wide treasury and risk management policy.
- 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.

Directors

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, were:

Jesper Kryhlmand (Appointed 2 July 2019)

Alison Dodd (Appointed 01 January 2019, resigned 30 June 2019)

Isabelle Sabaud (Resigned 28 February 2020)

Thomas Deeg (Appointed 17 March 2020)

Julian Hartung (Appointed 4 May 2020)

Christoph Rode (Resigned 1 January 2019)

Political and charitable contributions

During the year the company made charitable donations totalling £1,610 (2018: £1,648) to the charities Teenage Cancer Trust £1,610 (2018: £nil), Keech Hospice £nil (2018: £617) and Cancer Research UK £nil (2018: £1,031).

The company made no political contributions in the year (2018: £nil).

Future developments

The future developments of the company are disclosed in the Strategic Report.

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

Employee involvement

During the year, the policy of providing employees with information about the company has been continued through staff forums, development programmes 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, 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, operating profit 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, career development and promotion to disabled employees wherever appropriate.

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.

The company has considerable financial resources available to it being part of the larger T-Systems Group (ultimately Deutsche Telekom Aktiengesellschaft). Under the concept of central Group financing, it is the policy of the Deutsche Telekom Group to maintain the liquidity of its subsidiaries and use its influence as a majority shareholder within such subsidiaries corporate bodies in such a way that it fulfils its contractual obligations. This is as stated in the letter of support from the immediate parent company.

Accordingly, the directors continue to adopt the going concern basis in preparing the directors' report and financial statements.

Qualifying third party indemnity provisions

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.

Post balance sheet events

In early 2020 there has been a global outbreak of COVID-19 (Coronavirus) which has and continues to have a significant and ever changing impact on the company, the sector and the UK economy as a whole. The company considers this to be a non-adjusting post balance sheet event.
Management has not subsequently identified any material remeasurements of assets and liabilities.
The effect of the Coronavirus pandemic on the economy has seen a decline in commercial activity. It is unclear how great the impact on the economy will be, but expect it to normalise over time.
The corona pandemic has not yet materially affected the Company's financial performance.

On 1 July 2020 the telecommunications portfolio unit of the company was separated and transferred to Deutsche Telekom Global Business Solutions UK Limited, a subsidiary of T-Systems Limited as at 31 December 2019. On the same date, the ownership of shares in Deutsche Telekom Global Business Solutions UK Limited was transferred from T-Systems Limited to T-Systems International GmbH. The impact of this on the company is a reduction in turnover of around 25% and a reduction in headcount of around 33%.

Independence of auditors

The independent auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 12 November 2020 and signed by its order by:

DocuSigned by:
Jeevan D'Silva
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J J L D'Silva

Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T-SYSTEMS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, T-Systems Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 for the year ended 31 December 2019 (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; 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

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

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

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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T-SYSTEMS LIMITED (continued)

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 2019 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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T-SYSTEMS LIMITED (continued)

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.

Andrew Dymond.

Andrew Dymond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
12 November 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Turnover	3	**182,912**	238,333
Cost of sales		**(167,623)**	(219,407)
Gross profit		**15,289**	18,926
Administrative expenses (2018: Including exceptional items of £5,424,000)	4	**(11,578)**	(20,667)
Operating profit/(loss)	4	**3,711**	(1,741)
Interest receivable and similar income	8	**66**	17
Interest payable and similar expenses	9	**(459)**	(221)
Other finance costs	10	**(6)**	(148)
Profit/(loss) before taxation		**3,312**	(2,093)
Tax on profit/(loss)	11	**(111)**	(66)
Profit/(loss) for the financial year		**3,201**	(2,159)
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain on defined benefit schemes		**(1,103)**	5,329
Movements on deferred tax relating to pension deficit	20	**187**	(906)
Total other comprehensive (expense)/income		**(916)**	4,423
Total comprehensive income for the year		**2,285**	2,264

The notes on pages 15 to 47 form part of these financial statements.

T-SYSTEMS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	12;13	**10,755**	15,029
Tangible assets	14	**8,295**	10,165
Right-of-use assets	15	**8,317**	-
Investments	29	**500**	500
		27,867	25,694
Current assets			
Debtors: Amounts falling due within one year	16	**124,760**	150,225
Cash at bank and in hand	17	**15,429**	17,242
		140,189	167,467
Creditors: amounts falling due within one year	18	**(143,761)**	(178,196)
Net current liabilities		**(3,572)**	(10,729)
Total assets less current liabilities		**24,295**	14,965
Creditors: amounts falling due after more than one year	19	**(6,753)**	-
Provisions for liabilities	21	**(784)**	(994)
Net assets excluding pension liability		**16,758**	13,971
Pension liability	22	**(1,177)**	(660)
Net assets		**15,581**	13,311
Capital and reserves			
Called up share capital	23	**550**	550
Share premium account	24	**15,000**	15,000
Other reserves	24	**230,767**	230,782
Profit and loss account	24	**(230,736)**	(233,021)
Total equity		**15,581**	13,311

The financial statements on pages 12 to 47 were approved and authorised for issue by the board and signed on its behalf on 12 November 2020 by:

DocuSigned by:
Thomas Deeg
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Thomas Deeg

Director

The notes on pages 15 to 47 form part of these financial statements.

T-SYSTEMS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	550	15,000	230,768	(235,285)	11,033
Comprehensive (expense) / income for the year					
Loss for the financial year	-	-	-	(2,159)	(2,159)
Actuarial gains on pension scheme (net)	-	-	-	4,423	4,423
Total other comprehensive income for the year	-	-	-	4,423	4,423
Total comprehensive income for the year	-	-	-	2,264	2,264
Sharing Matching Plan Credit	-	-	14	-	14
Total transactions with owners	-	-	14	-	14
At 31 December 2018	550	15,000	230,782	(233,021)	13,311
At 1 January 2019	550	15,000	230,782	(233,021)	13,311
Comprehensive income / (expense) for the year					
Profit for the financial year	-	-	-	3,201	3,201
Actuarial losses on pension scheme (net)	-	-	-	(916)	(916)
Total other comprehensive expense for the year	-	-	-	(916)	(916)
Total comprehensive income for the year	-	-	-	2,285	2,285
Sharing Matching Plan Debit	-	-	(15)	-	(15)
Total transactions with owners	-	-	(15)	-	(15)
At 31 December 2019	550	15,000	230,767	(230,736)	15,581

The notes on pages 15 to 47 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

General information

T-Systems Limited ('the company') provides information and telecommunication services for its customers. It services customers on a global scale.

It is a private limited company limited by shares and is incorporated in England and Wales, United Kingdom with the registered number 01668706. Its registered office address is Sixth Floor, Rathbone Place, Fitzrovia, London, W1T 1HY.

1. Accounting policies

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.

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The company has considerable financial resources available to it being part of the larger T-Systems Group (ultimately Deutsche Telekom Aktiengesellschaft). Under the concept of central Group financing, it is the policy of the Deutsche Telekom Group to maintain the liquidity of its subsidiaries and use its influence as a majority shareholder within such subsidiaries corporate bodies in such a way that it fulfils its contractual obligations. This is as stated in the letter of support from the immediate parent company.

Accordingly, the directors continue to adopt the going concern basis in preparing the directors' report and financial statements.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

1.2 Financial reporting standard 101 – reduced disclosure exemptions

The company is a wholly-owned subsidiary of Deutsche Telekom Aktiengesellschaft and is included in the consolidated financial statements of Deutsche Telekom Aktiengesellschaft which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - Paragraph 79(a)(iv) of IAS 1
    - Paragraph 73(e) of IAS 16 Property, Plant and Equipment
    - Paragraph 118(e) of IAS 38 Intangible Assets

- the requirements of paragraphs 10(d), 10(f), 16, 38A,38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of IFRS 3 Business Combination
- recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

1.3 Turnover

T-Systems Limited provides IT services and network services for corporate customers, including IT outsourcing services and the sale of licences and desktop services.

On inception of the contract, the company identifies a "performance obligation" for each of the distinct service or deliverable for which the customer has contracted. Revenue is recognised when performance obligations have been satisfied and, for the company, the performance obligations are considered to be satisfied over the time period that the services are rendered. When a performance obligation is satisfied, the company recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled in exchange for transferring promised goods or services to a customer, net of value added taxes.

Some contracts include multiple deliverables, such as the sale of licences, desktop services and related installation services. Where the contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on the stand-alone selling prices. If contracts include the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

1.4 Goodwill

Goodwill represents the excess of the fair value of the consideration given over the fair value of the net identifiable assets acquired. Positive goodwill arising on acquisitions is capitalised as an asset on the balance sheet. It is not subject to amortisation and is tested annually for impairment, or more frequently if events and changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment loss.

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 Statement of Comprehensive Income is taken into account in determining the profit or loss on sale or closure.

1. Accounting policies (continued)

1.5 Tangible Assets

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated lives, using the straight-line method:

Depreciation is provided on the following basis:

Plant and machinery	-	2 to 12 years
Telecom equipment	-	2 to 12 years
Office equipment	-	2 to 12 years
Assets in the course of construction	-	No depreciation is provided on assets in the course of construction

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

1.6 Operating lease agreements

As explained in note 1.20, the group has changed its accounting policy for leases where the group is the lessee. The new policy is described in note 15 and the impact of the change in note 27.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operation leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

The company does not have any finance lease in which it is a lessee or lessor.

1. Accounting policies (continued)

1.7 Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.8 Investment in a subsidiary company

Investment in a subsidiary company is held at cost less accumulated impairment losses.

1.9 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1.10 Financial instruments

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

Financial assets

(i) Classification

The company classifies all of its financial assets as those to be measured at amortised cost.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (being the date on which the company commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards or ownership.

1. Accounting policies (continued)

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The company subsequently measures all financial assets at amortised cost. Under this measurement, assets that are held for collection of contractual cash flows, where those cash flow represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented on other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the Statements of Comprehensive Income.

(iv) Impairments

The company assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

1. Accounting policies (continued)

1.10 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost including bank borrowings, trade and other creditors, amounts owed to group undertakings and accruals are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

1.11 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within administrative expenses.

1.12 Finance Costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount is charged at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1. Accounting policies (continued)

1.13 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.

1.14 Pension costs

Defined contribution pension plan

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. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

Defined benefit pension plan

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the Statement of Changes in Equity and in the Balance Sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the Statement of Comprehensive Income.

1. Accounting policies (continued)

1.15 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.16 Provisions for liabilities

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 a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the Statement of Comprehensive Income 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.

1.17 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

1.17 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.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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.

1. Accounting policies (continued)

1.18 Exceptional items

Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the company.

These may include the costs of closure of locations or significant headcount reduction, costs arising from the acquisition or disposal of businesses including related contractual management incentive charges, transaction costs of a significant and non-recurring nature, debt-refinancing costs including early redemption premiums on voluntary repayments of borrowings, impairment charges, and the recognition of previously derecognised deferred tax assets.

1.19 Intangible assets

Intangible assets relate to externally acquired software and 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.

1.20 New standards, amendments and IFRIC interpretations

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company's financial statements - see note 27. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact of the company's financial statements.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

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

(i) Defined benefit pension scheme

The cost of defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to complexity of the valuation, management take the advice of the actuaries.

(ii) Taxation

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 future tax planning strategy.

(iii) Impairment of fixed assets and goodwill

The management periodically review the carrying value of fixed assets and consider the need for impairment. They take into consideration key factors such as performance of and circumstances around individual customer contracts, changes in residual value of assets and technological advancement.

There are no significant judgements within the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Turnover

The whole of the turnover is attributable to services provided by the company from provision of computing and telecommunication services.

Analysis of turnover by country of destination:

	2019	2018
	£'000	£'000
United Kingdom	124,849	171,824
Rest of Europe	57,466	66,450
Rest of the World	597	59
	182,912	238,333

Total turnover includes £9,650,000 (2018: £10,892,000) attributable to performance obligations fulfilled, not yet billed; and £1,599,000 (2018: £8,178,000) attributable to performance obligations billed, not yet fulfilled.

4. Operating profit / (loss)

The operating profit / (loss) is stated after charging / (crediting):

	2019	2018
	£'000	£'000
Depreciation of tangible fixed assets	4,711	5,219
Amortisation of intangible assets	2,736	3,441
Loss on disposal of fixed assets	1,903	208
Exchange differences	(298)	(1,072)
Operating lease charges	-	2,133
Impairment of trade debtors	94	38
Exceptional items	-	5,424

Exceptional items in 2018 relate to restructuring costs due to redundancies.

T-SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2019	2018
	£'000	£'000
Fees payable for the company's auditors for the audit of the company and its subsidiary financial statements	95	95
	95	95

6. Employee information

Employee benefits expenses

	2019	2018
	£'000	£'000
Wages and salaries	36,870	46,697
Social security costs	4,333	4,955
Pension costs – defined contribution plans	3,071	3,658
Other post-employment benefit expense	230	453
	44,504	55,763

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

Average number of people employed

	2019	2018
	No.	No.
Management	5	5
Production	231	251
Administration	54	65
Sales	64	148
	354	469

7. Directors' remuneration

	2019	2018
	£'000	£'000
Directors' emoluments	512	1,067
Company contributions to defined contribution pension schemes	11	13
	523	1,080

During the year retirement benefits were accruing to 1 director (2018 – 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £363,936 (2018 – £539,880).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2018 – £nil). No contributions were paid to a defined benefit scheme (2018 - £nil).

8. Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest receivable from group undertakings	66	17

9. Interest payable and similar expenses

	2019	2018
	£'000	£'000
Bank and other interest payable	199	169
Interest payable to group undertakings	34	52
Interest on lease liabilities	226	-
	459	221

10. Other finance costs

	2019	2018
	£'000	£'000
Net interest on net defined benefit liability	6	148

11. Tax on profit / (loss)

	2019	2018
	£'000	£'000
Current tax		
Income for losses surrendered in prior year by way of group relief	-	-
Total current tax	-	-
Deferred tax		
Movement on the deferred tax liability of the defined benefit pension scheme	111	66
Total deferred tax	111	66
Total tax on profit / (loss)	111	66

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 – higher than) the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019	2018
	£'000	£'000
Profit / (loss) before taxation	3,312	(2,093)
Profit / (loss) before taxation at standard rate of corporation tax in the UK of 19% (2018 – 19%)	629	(398)
Expenses not deductible for tax purposes	36	38
Deferred tax not recognised	(554)	426
Income for losses surrendered in prior year by way of group relief	-	-
Total tax charge for the year	111	66

Remaining unutilised tax losses as at 31 December 2019 are £8,773,543. The deferred tax asset associated with the unutilised tax loss is £1,491,502.

11. Tax on profit / (loss) (continued)

Factors that may affect future tax charges

Change to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporate rate from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%.

At Budget 2020, the Government announced that the corporation tax main rate (for all profits except ring fenced profits) for the years starting 1 April 2020 and 2021 would remain at 19%. This new law was substantively enacted on 17 March 2020. The overall effect of the change, had it been substantively enacted by the balance sheet date, is immaterial.

12. Intangible assets

	Software	Licences	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019 as previously stated	22,204	3,000	-	25,204
Prior year adjustment	2,144	-	-	2,144
At 1 January 2019 as restated	24,348	3,000	-	27,348
Additions	14	-	190	204
Disposals	(1,185)	(119)	-	(1,304)
Transfers	190	-	(190)	-
At 31 December 2019	23,367	2,881	-	26,248
Accumulated amortisation				
At 1 January 2019	14,683	2,996	-	17,679
Prior year adjustment	3,043	-	-	3,043
At 1 January 2019 as restated	17,726	2,996	-	20,722
Charge for the year	2,736	-	-	2,736
Disposals	(346)	(115)	-	(461)
At 31 December 2019	20,116	2,881	-	22,997
Net book value				
At 31 December 2019	3,251	-	-	3,251
At 31 December 2018	7,521	4	-	7,525

Amortisation of intangible assets is included within Cost of Sales in the Statement of Comprehensive Income.

The reason for the prior year adjustment was to align the brought forward balances in the financial statements with the fixed asset register. Whilst the overall net book value is unaffected, there is a reclassification between historic cost and accumulated depreciation, and between tangible and intangible fixed assets.

13. Goodwill

	Total
	£'000
Cost	
At 1 January 2019	**7,504**
At 31 December 2019	**7,504**
Net book value	
At 31 December 2019	**7,504**
At 31 December 2018	7,504

The goodwill balance is subject to an annual impairment review based on the business streams associated with it. The outcome of the impairment review confirms that the goodwill retains its value and therefore amortisation is deemed not appropriate at present.

Reconciliation of intangible assets

	2019 £'000	2018 £'000
Intangible assets (Note 12)	**3,251**	7,525
Goodwill (Note 13)	**7,504**	7,504
Total intangible assets	**10,755**	15,029

14. Tangible assets

	Plant and machinery	Telecom equipment	Office equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2019	98,816	10,790	1,884	494	111,984
Prior year adjustment	(45,251)	(426)	1,471	264	(43,942)
At 1 January 2019 as restated	53,565	10,364	3,355	758	68,042
Additions	1,465	5	197	1,335	3,002
Disposals	(4,089)	-	(350)	(189)	(4,628)
Transfers	1,310	-	51	(1,361)	-
At 31 December 2019	52,251	10,369	3,253	543	66,416
Accumulated depreciation					
At 1 January 2019	89,636	10,319	1,864	-	101,819
Prior year adjustment	(44,986)	(623)	768	-	(44,841)
At 1 January 2019 as restated	44,650	9,696	2,632	-	56,978
Charge for the year	4,412	96	203	-	4,711
Disposals	(3,322)	-	(246)	-	(3,568)
At 31 December 2019	45,740	9,792	2,589	-	58,121
Net book value					
At 31 December 2019	6,511	577	664	543	8,295
At 31 December 2018	9,180	471	20	494	10,165

The reason for the prior year adjustment was to align the brought forward balances in the financial statements with the fixed asset register. Whilst the overall net book value is unaffected, there is a reclassification between historic cost and accumulated depreciation, and between tangible and intangible fixed assets.

15. Leases

The company has lease contracts for various offices, data centres and vehicles. The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 Dec 2019	1 Jan 2019*
	£'000	£'000
Right-of-use assets		
Buildings	**8,273**	6,718
Vehicles	**44**	138
	8,317	6,856
Lease liabilities		
Current	**1,899**	2,140
Non-current	**6,753**	5,098
	8,652	7,238

* For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 27.

Additions to the right-of-use assets during the year were £5,077,700.

T-SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

15. Leases (continued)

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2019
	£'000
Depreciation charge of right-of-use assets	
Buildings	1,998
Vehicles	77
	2,075
Interest expense (included in finance cost)	226

The total cash outflow for leases in 2019 was £4,506,000.

The interest rate applied ranges from 1.3% to 3.0% dependent on the underlying asset.

16. Debtors amounts falling due within one year

	2019	2018
	£'000	£'000
Trade debtors	12,596	56,314
Amounts owed by group undertakings	98,095	70,557
Other debtors	1,037	6,069
Prepayments and accrued income	13,032	17,285
	124,760	150,225

Trade debtors are stated after provision for impairment of £110,212 (2018: £431,951).

Included within amounts owed by group undertakings, is the balance on the cash pooling account with Deutsche Telekom Aktiengesellschaft, the company's ultimate parent company. This can be drawn as and when required and interest is accrued on a daily basis.

The remaining 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.

Other debtors includes amounts owed to the company by an invoice financing company, along with balances relating to revaluation of foreign currency bank accounts. The decrease in 2019 relates to the amounts owed by the invoice financing company £634,738 (2018 £5,452,558).

Prepayments and accrued income decreased in 2019 due to the change in activities on two of the significant customer accounts. Both prepaid expenses and accrued income reduced on both of these accounts.

17. Cash at bank and in hand

	2019	2018
	£'000	£'000
Cash at bank and in hand	15,429	17,242

18. Creditors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Other loans	-	138
Trade creditors	4,486	40,987
Amounts owed to group undertakings	101,767	86,426
Other taxation and social security	2,521	4,189
Other creditors	3,764	2,543
Accruals and deferred income	29,324	43,913
Lease liabilities (note 15)	1,899	-
	143,761	178,196

The amounts 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.

Other loans relates to a finance lease liability. The term of the lease is until June 2019 and interest is charged at a rate of 2.64%.

Other creditors comprises mainly of employee related liabilities (for example, amounts due to be paid in respect of the defined contribution pension scheme), and the balance relating to unexpired currency forward contracts.

19. Creditors: Amounts falling due after more than one year

	2019	2018
	£'000	£'000
Lease liabilities (note 15)	6,753	-
	6,753	-

20. Deferred taxation

	Deferred tax £'000
At 1 January 2019	(351)
Charged to the income statement	(111)
Credited directly to other comprehensive expense	187
At 31 December 2019	(275)

In respect of prior year:	**Deferred tax £'000**
At 1 January 2018	621
Charged to the income statement	(66)
Charged directly to other comprehensive income	(906)
At 31 December 2018	(351)

The deferred tax liability made up as follows:	**2019 £'000**	2018 £'000
Pension deficit	**(275)**	(351)
	(275)	(351)

T-Systems Limited recognised a deferred tax liability of £275,000 in 2019 (2018: £351,000).

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 due to the company not being consistently profitable over recent years.

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

	2019 £'000	2018 £'000
Capital allowances in advance of depreciation	**38,544**	34,965
Other timing issues	**220**	428
	38,764	35,393

21. Provisions for liabilities

	Asset retirement obligations £'000	Deferred taxation £'000	Total £'000
At 1 January 2019	261	351	612
Additions	248	-	248
Released	-	(76)	(76)
At 31 December 2019	509	275	784

Asset retirement obligations

A provision is recognised for the cost 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 in line with the expiration of each lease. The expiration dates range from 2019 to 2033.

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 Statement of Comprehensive Income. The unwinding of the discount is included within the Statement of Comprehensive Income.

22. Pension liabilities

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 Hartshead Limited.

(a) Defined contribution section

The company's contributions to the money purchase section during the year amounted to £3,070,950 (2018: £3,658,000).

(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 2016 and the Plan as at 31 December 2017. This has been rolled forward to 31 December 2019 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.

22. Pension liabilities (continued)

	2019 £'000	2018 £'000
Equities (UK and overseas)	**29,822**	28,619
Bonds	**12,435**	15,594
Cash/Other	**7,059**	89
Total plan assets	**49,316**	44,302

	2019 £'000	2018 £'000
Fair value of plan assets	**49,316**	44,302
Present value of plan liabilities	**(50,493)**	(44,962)
Net pension scheme liability	**(1,177)**	(660)

The amounts recognised in the profit or loss are as follows:

	2019 £'000	2018 £'000
Current service cost	**(98)**	(330)
Past service cost	**(100)**	-
Net interest on obligation	**(6)**	(148)
Administration costs paid	**(26)**	(24)
GMP Equalisation	**-**	(99)
Total	**(230)**	(601)
Actual return on scheme assets	**(859)**	(1,652)

Reconciliation of present value of plan liabilities were as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	**(44,962)**	(53,117)
Current service cost	**(98)**	(330)
Past service cost	**(100)**	-
Contribution by scheme participants	**(4)**	(34)
Actuarial gains – Experience	**28**	634
Actuarial gains – Demographic assumptions	**379**	3,660
Actuarial (losses) / gains – Financial assumptions	**(5,385)**	3,813
Interest cost	**(1,210)**	(1,272)
Benefits paid	**859**	1,783
Plan introductions, charges, curtailments and settlements	**-**	(99)
Closing defined benefit obligation	**(50,493)**	(44,962)

T-SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. Pension liabilities (continued)

Reconciliation of present value of plan assets were as follows:

	2019	2018
	£'000	£'000
Opening fair value of scheme assets	**44,302**	46,779
Actuarial gains / (losses)	**3,875**	(2,778)
Interest income on plan assets	**1,204**	1,124
Contributions by employer	**816**	950
Contributions by scheme participants	**4**	34
Administration costs paid	**(26)**	(24)
Benefits paid	**(859)**	(1,783)
	49,316	44,302

As at the last valuation date there were 11 active members, 120 deferred members and 39 members in retirement.

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2019	2018
	%	%
Discount rate	**2.1**	2.7
Future salary increase	**2.8**	2.9
Future pension increase:		
- April 1997 – September 2005 (LPI5%)	**2.7**	2.9
- Post October 2005 (LPI2.5%)	**2.7**	2.1
Retail price inflation	**2.8**	3.1
Consumer price inflation	**2.0**	1.9
Mortality rates:	**Years**	Years
- For a male aged 65 now	**21.8**	21.6
- For a female aged 65 now	**23.7**	23.8
- For a male aged 65 in 15 years	**22.8**	22.9
- For a female aged 65 in 15 years	**24.8**	25.0

22. Pension liabilities (continued)

Sensitivity analysis - increase/(decrease) in defined benefit obligation:		**2019 £'000**	2018 £'000
- Discount rate	1% increase	**(10,988)**	(9,349)
- Discount rate	1% decrease	**15,098**	12,745
- Salary increases	0.5% increase	**-**	303
- Salary increases	0.5% decrease	**-**	(246)
- Pension increases	0.25% increase	**2,361**	1,793
- Pension increases	0.25% decrease	**(2,289)**	(1,759)
- Mortality	1 year increase	**1,551**	1,759
- Mortality	1 year decrease	**(1,538)**	(1,665)

Through its defined benefit pension plans, the company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plans' liabilities are calculated using a discount rate set with reference to corporate bond yields. If the plans' assets underperform this yield, this will create a deficit. The structure of the plans' assets is expected to outperform corporate bonds in the long term whilst providing an acceptable level of volatility and risk in the short term.

The Trustees have set a mechanism in place to ensure that as the plans mature the level of investment risk is reduced by investing more in assets which better match the profile of the liabilities. The first stage of this process was undertaken in 2016 when the investment in Bonds was reduced and re-invested into Liability Driven Investment funds.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities.

Inflation risk

Some of the company pension obligations are linked to inflation. Higher inflation will lead to higher liabilities.

Life expectancy

The plans' obligations are to provide benefits for the life of the member. As such, increases in life expectancy will result in an increase in the plans' liabilities.

Expected maturity analysis of pension benefits:

	2019 £'000	2018 £'000
Less than 1 year	**738**	950
1 to 2 years	**751**	978
2 to 5 years	**2,328**	3,106
5 to 10 years	**4,150**	5,807

23. Called up share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid:	**550**	550

24. Reserves

Share premium account

The share premium account represents the amount subscribed for share capital in excess of the nominal value.

Other reserves

Other reserves relates entirely to capital contributions from the group to which the company belongs.

Profit and loss account

The profit and loss account represents all net gains and losses and transactions with owners (e.g. dividends) that are not recognised elsewhere.

25. 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.

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 2019 is £961,468 (2018: £1,106,674).

No cash-settled share-based payments had vested at 31 December 2019, nor at 31 December 2018.

26. Events after the end of the reporting period

In early 2020 there has been a global outbreak of COVID-19 (Coronavirus) which has and continues to have a significant and ever changing impact on the company, the sector and the UK economy as a whole. The company considers this to be a non-adjusting post balance sheet event. Management has not subsequently identified any material remeasurements of assets and liabilities. The effect of the Coronavirus pandemic on the economy has seen a decline in commercial activity. It is unclear how great the impact on the economy will be, but expect it to normalise over time.

The corona pandemic has not yet materially affected the Company's financial performance.

On 1 July 2020 the telecommunications portfolio unit of the company was separated and transferred to Deutsche Telekom Global Business Solutions UK Limited, a subsidiary of T-Systems Limited as at 31 December 2019. On the same date, the ownership of shares in Deutsche Telekom Global Business Solutions UK Limited was transferred from T-Systems Limited to T-Systems International GmbH. The impact of this on the company is a reduction in turnover of around 25% and a reduction in headcount of around 33%.

27. Effect of adoption of IFRS 16 - Leases

(i) Practical expedient applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there was one onerous contract as at 1 January 2019
- Accounting for operating leases with remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

(ii) Measurement of lease liabilities

	2019 **£'000**
Operating lease commitments disclosed as at 31 December 2018	4,082
Discounted using the lessee's incremental borrowing rate at the date of initial application	3,924
Less: short-term leases not recognised as a liability	(1,799)
Add: leases not disclosed under operating lease commitments as at 31 December 2018	3,740
Add: adjustments as a result of different treatment of contract term	1,373
Lease liability recognised as at 1 January 2019	7,238

Of which are:

Current lease liabilities	2,140
Non-current lease liabilities	5,098
	7,238

(iii) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any onerous lease provision, prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

27. Effect of adoption of IFRS 16 – Leases (continued)

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by £6,855,663
- Lease liabilities – increase by £7,237,663
- Provisions for liabilities – decrease by £382,000

(v) Lessor accounting

The company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

28. Related party transactions

The company has taken advantage of the exemption from disclosing related party transactions with fellow group members under IAS 24 on the grounds that the group is wholly owned by Deutsche Telekom Aktiengesellschaft whose consolidated financial statements are publicly available.

29. Investments

Movement of investment in subsidiary undertakings is shown as below:

	£'000
Cost	
As at 1 January 2019	500
As at 31 December 2019	500
Net book value	
As at 31 December 2018	500
As at 31 December 2019	500

The company's principal subsidiary at 31 December 2019 is set out below. It has share capital consisting solely of ordinary shares that are held directly by the company, and the proportion of ownership interests held equals the voting rights held by the company. The country of incorporation or registration is also its principal place of business.

Entity:	Deutsche Telekom Global Business Solutions UK Limited
Share Capital:	500,000 ordinary shares of £1 each
Proportion of shares held by direct parent (%):	100%
Registered Office:	Building K2, Timbold Drive, Kents Hill, Milton Keynes, MK7 6BZ

30. Ultimate parent undertaking and controlling party

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.