

**T-SYSTEMS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Registered number: 01668706**



# **T-SYSTEMS LIMITED**

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# **T-SYSTEMS LIMITED**

## **COMPANY INFORMATION**

### **Directors**

Frank-Stephan Hardt (Resigned 31 December 2017)  
Christoph Rode  
Mark Turner  
Isabelle Sabaud (Appointed 1 March 2018)

### **Company Secretary**

J J L D'Silva

### **Registered office**

21<sup>st</sup> Floor Euston Tower  
286 Euston Road  
London  
NW1 3DP

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Exchange House  
Central Business Exchange  
Midsummer Boulevard  
Central Milton Keynes  
MK9 2DF

### **Bankers**

The Royal Bank of Scotland  
2<sup>nd</sup> Floor  
152 Silbury Boulevard  
Central Milton Keynes  
MK9 1LT

### **Solicitors**

Kimbell's Freeth  
Davy Avenue  
Knowlhill  
Central Milton Keynes  
Buckinghamshire  
MK5 8HJ

# T-SYSTEMS LIMITED

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

### Business review

The profit for the financial year amounted to £6,831,000 (2016: £3,135,000). The directors do not recommend the payment of any dividends (2016: £nil).

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

	2017 £'000	2016 £'000	Change %
Turnover	269,752	310,233	(13.0)
Operating profit	9,926	4,473	121.9
Profit for the financial year	6,831	3,135	117.9
Capital investment	8,674	12,067	(28.1)
Net assets	11,033	3,588	207.5
Average headcount	572	638	(10.3)

Turnover shows a reduction of 13.0% in comparison to the previous year. This was mainly driven by less operational business on the two most significant customer accounts of T-Systems Limited. On one of the accounts, the mutually agreed exit plan, relating to the termination of the contract (signed by both parties in 2016), led to a significant volume reduction in 2017 resulting in a 24% decrease in turnover. On the other significant account, both parties agreed in 2016 to renew the existing contract for another 5 year period on the basis of less volume and lower unit prices. Due to this contractual agreement the customer specific turnover decreased by 21% in 2017.

Irrespective of the decline of turnover, the operating profit has increased in 2017 as a result of further restructuring processes and a highly stabilised service and delivery environment on all international and local accounts. The productivity in service and delivery was improved by specific investments which increased the profitability by 122% in comparison to 2016.

The profit for the financial year has increased from the prior year in line with the increase in operating profits. The difference between the operating profit and the profit for the financial year was mainly driven by losses on disposal of fixed assets, interest payable, other finance costs and tax on profit.

The capital investment has decreased in 2017 by 28% following some significant investments being made in 2016 relating to a new data centre and the internally developed "Order to Cash" tool.

Net assets have increased in 2017 as a result of an increase in cash at bank and a reduction in current liabilities. This was partially offset by a decrease in capital investment in the year. In comparison to the financial year 2016, in 2017 there was a decrease in the pension liability which adds to the overall increase in net assets in the year.

The average headcount decreased in 2017 as a result of a regular cost saving programme which resulted in a head count reduction of 66 FTE's.

# **T-SYSTEMS LIMITED**

## **STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2017**

### **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 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.

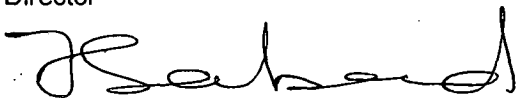
By setting up further cost improvement programmes, the senior management will ensure that the company continuously increases its profitability especially in Delivery, Service and Cross Functions.

This report was approved by the board on

September 2018 and signed on its behalf by:

**Isabelle Sabaud**

Director



24<sup>th</sup> September 2018

# **T-SYSTEMS LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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

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

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

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

### **Principal activity**

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

### **Results and dividends**

The profit for the financial year amounted to £6,831,000 (2016: £3,135,000). The directors do not recommend the payment of any dividends (2016: £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.

# **T-SYSTEMS LIMITED**

## **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2017**

### **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 15 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.

### **Directors**

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

Dr. Frank-Stephan Hardt (Resigned 31 December 2017)  
Christoph Rode  
Mark Turner  
Isabelle Sabaud (Appointed 1 March 2018)

### **Political and charitable contributions**

During the year the company made charitable donations totalling £4,251 (2016: £2,793) to the charities Action Challenge UK Ltd £4,150 (2016: £nil), Keech Hospice £57 (2016: £nil), Save The Children £40 (2016: £nil), Florence Nightingale Hospice £4 (2016: £nil), ShelterBox £nil (2016: £2,493), Blind Children UK £nil (2016: £150) and Water Aid £nil (2016: £150).

The company made no political contributions in the year (2016: £nil).

### **Future developments**

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

# **T-SYSTEMS LIMITED**

## **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2017**

### **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, 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, 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 on pages 3 and 5 respectively.

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.

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.



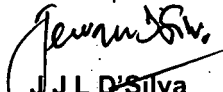
# **T-SYSTEMS LIMITED**

## **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2017**

### **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 <sup>24</sup>24 September 2018 and signed by its order by:

  
J J L D'Silva  
Secretary

# **T-SYSTEMS LIMITED**

## **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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2017; the statement of comprehensive income, the statement of changes in equity for the year then ended 31 December 2017; 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 when:

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

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 to perform procedures to conclude whether there is a material misstatement of the financial

# **T-SYSTEMS LIMITED**

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

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 2017 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 set out on page 4, 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](http://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.

# **T-SYSTEMS LIMITED**

## **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.



Mark Skedgel (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Milton Keynes

  
24 September 2018

# T-SYSTEMS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
	Note	£'000	£'000
Turnover	3	269,752	310,233
Cost of sales		(237,124)	(283,883)
<b>Gross profit</b>		<b>32,628</b>	<b>26,350</b>
Administrative expenses		(25,927)	(22,939)
<b>Operating profit</b>	4	<b>6,701</b>	<b>3,411</b>
Interest receivable and similar income	8	29	85
Interest payable and similar expenses	9	(258)	(377)
Other finance costs	10	(174)	(44)
<b>Profit before taxation</b>		<b>6,298</b>	<b>3,075</b>
Tax on profit	11	533	60
<b>Profit for the financial year</b>		<b>6,831</b>	<b>3,135</b>
<b>Other comprehensive income / (expense):</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain / (loss) on defined benefit schemes		732	(5,921)
Movements on deferred tax relating to pension deficit	19	(124)	1,007
<b>Total other comprehensive income / (expense)</b>		<b>608</b>	<b>(4,914)</b>
<b>Total comprehensive income / (expense) for the year</b>		<b>7,439</b>	<b>(1,779)</b>

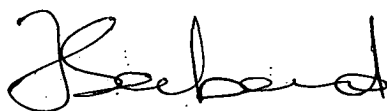
The notes on pages 14 to 39 form part of these financial statements.

**T-SYSTEMS LIMITED**  
**REGISTERED NUMBER: 01668706**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Intangible assets	12,13	14,209	18,652
Tangible assets	14	14,835	13,117
		<b>29,044</b>	31,769
<b>Current assets</b>			
Debtors: Amounts falling due after more than one year	15	375	438
Debtors: Amounts falling due within one year	15	116,032	112,856
Cash at bank and in hand	17	6,504	4,082
		<b>122,911</b>	117,376
<b>Creditors: amounts falling due within one year</b>	18	<b>(132,367)</b>	(136,220)
<b>Net current liabilities</b>		<b>(9,456)</b>	(18,844)
<b>Total assets less current liabilities</b>		<b>19,588</b>	12,925
<b>Provisions for liabilities</b>	20	<b>(2,217)</b>	(2,310)
<b>Net assets excluding pension liability</b>		<b>17,371</b>	10,615
Pension liability	21	(6,338)	(7,027)
<b>Net assets</b>		<b>11,033</b>	3,588
<b>Capital and reserves</b>			
Called up share capital	22	550	550
Share premium account	23	15,000	15,000
Other reserves	23	230,768	230,762
Profit and loss account	23	(235,285)	(242,724)
<b>Total equity</b>		<b>11,033</b>	3,588

The financial statements on pages 11 to 39 were approved and authorised for issue by the board and signed on its behalf on 20 September 2018 by:

**Isabelle Sabaud**  
Director



The notes on pages 14 to 39 form part of these financial statements.

# T-SYSTEMS LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2016 as previously reported	550	15,000	230,758	(236,873)	9,435
Prior year adjustment	-	-	-	(4,072)	(4,072)
At 1 January 2016 as restated	550	15,000	230,758	(240,945)	5,363
Comprehensive expense for the year					
Profit for the financial year	-	-	-	3,135	3,135
Actuarial losses on pension scheme (net)	-	-	-	(4,914)	(4,914)
Other comprehensive expense for the year	-	-	-	(4,914)	(4,914)
Total comprehensive expense for the year	-	-	-	(1,779)	(1,779)
Sharing Matching Plan Credit	-	-	4	-	4
Total transactions with owners	-	-	4	-	4
At 31 December 2016	550	15,000	230,762	(242,724)	3,588
At 1 January 2017	550	15,000	230,762	(242,724)	3,588
Comprehensive income for the year					
Profit for the financial year	-	-	-	6,831	6,831
Actuarial gains on pension scheme (net)	-	-	-	608	608
Other comprehensive expenses for the year	-	-	-	608	608
Total comprehensive income for the year	-	-	-	7,439	7,439
Sharing Matching Plan Credit	-	-	6	-	6
Total transactions with owners	-	-	6	-	6
At 31 December 2017	550	15,000	230,768	(235,285)	11,033

The prior year adjustment has arisen upon review by the directors. It relates to the reversal of a historic balance which resulted from the merger between T-Systems Limited and Gedas United Kingdom Limited, in respect of an actuarial gain on the defined benefit pension scheme at the point of transfer to T-Systems Limited.

The notes on pages 14 to 39 form part of these financial statements.

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### General information

T-Systems Limited ('the company') operates information and communication technology systems for its customers. It services customers on a global scale.

The company is a privately owned company and is incorporated and domiciled in the UK. The address of its registered office is 21<sup>st</sup> Floor Euston Tower, 286 Euston Road, London, NW1 3DP.

### 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.

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 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



# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. Accounting policies (continued)

#### 1.3 Turnover

The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement:

##### *Rendering of services*

Turnover from computing and telecommunication services is recognised in line with the stage of completion of an individual customer contract. Usually turnover 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 turnover is included as deferred income in the balance sheet.

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

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.

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

#### 1.4 Goodwill

Goodwill 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 subject to an annual impairment review where the recoverability of the carrying value is assessed.

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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. Accounting policies (continued)**

**1.5 Tangible Assets**

Tangible assets under the cost model 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.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is derecognised. 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 23 years
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**

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

**1.7 Impairment of fixed assets and goodwill**

Assets that are subject to depreciation or amortisation are reviewed 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows (CGU's). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1. Accounting policies (continued)**

#### **1.8 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than 3 months in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **1.9 Financial instruments**

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

##### **Financial assets**

The company classifies all of its financial assets as loans and receivables.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within the administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

##### **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 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.

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1. Accounting policies (continued)**

#### **1.10 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.

#### **1.11 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.

#### **1.12 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.

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1. Accounting policies (continued)**

#### **1.13 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 contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. 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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

#### **1.14 Interest income**

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

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1. Accounting policies (continued)**

#### **1.15 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.

#### **1.16 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.

#### **1.17 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.

#### **1.18 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.

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1. Accounting policies (continued)**

#### **1.19 Leases**

Company as lessor:

Where the company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments.

#### **1.20 Changes in accounting policy and disclosure**

The following new IFRS interpretations are mandatory as of 1 January 2018. The impact of adoption was assessed and is described below.

(i) **IFRS 15 Revenue from contracts with customers**

Establishes a new five-step model that will apply to revenue arising from contracts with customers, and provides a more structured approach to measurement and recognition of revenue. The review of the impact of IFRS 15 required a review of contracts in place with our customers in order to establish and confirm the full impact of adopting this standard.

Based on the review and assessment undertaken, management conclude that the new standard will not have a material impact on revenue recognition for the company, given the nature of services offered.

(ii) **IFRS 9 Financial instruments**

Introduces new requirements for classification and measurement, impairment and hedge accounting. The review of the impact of IFRS 9 required a review of financial assets held in order to establish and confirm the full impact of adopting this standard.

Based on the review and assessment undertaken, management conclude that the new standard will not lead to a change in accounting treatment.

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

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

(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**

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.

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 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:

	2017	2016
	£'000	£'000
United Kingdom	172,200	188,998
Rest of Europe	97,477	120,337
Rest of the World	75	898
	<b>269,752</b>	<b>310,233</b>

### 4. Operating profit

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

	2017	2016
	£'000	£'000
Depreciation of tangible fixed assets	4,711	3,017
Amortisation of intangible assets	3,463	3,511
Loss on disposal of fixed assets	3,225	1,062
Exchange differences	54	(1,821)
Operating lease charges	2,365	5,285
Impairment of trade debtors	22	269

### 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:

	2017	2016
	£'000	£'000
Fees payable for the audit	72	70
Fees payable for other services	-	64
	<b>72</b>	<b>134</b>



# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 6. Employees

Staff costs, including directors' remuneration, were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	51,579	52,402
Social security costs	5,582	6,043
Other pension costs	4,343	5,048
	61,504	63,493

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

	2017	2016
	No.	No.
Management	5	5
Production	315	385
Administration	73	82
Sales	179	166
	572	638

### 7. Directors' remuneration

	2017	2016
	£'000	£'000
Directors' emoluments	992	1,107
Company contributions to defined contribution pension schemes	19	27
	1,011	1,134

During the year retirement benefits were accruing to 1 director (2016 – 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £531,350 (2016 – £499,821).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2016 – £16,497). No contributions were paid to a defined benefit scheme (2016 – £nil).

# **T-SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **8. Interest receivable and similar income**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from group undertakings	<b>29</b>	<b>85</b>

### **9. Interest payable and similar expenses**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Bank and other interest payable	<b>222</b>	<b>215</b>
Interest payable to group undertakings	<b>36</b>	<b>162</b>
	<b>258</b>	<b>377</b>

### **10. Other finance costs**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Net interest on net defined benefit liability	<b>174</b>	<b>44</b>

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 11. Income tax

	2017	2016
	£'000	£'000
<b>Current tax</b>		
Income for losses surrendered in prior year by way of group relief	(525)	-
<b>Total current tax</b>	<b>(525)</b>	<b>-</b>
<b>Deferred tax</b>		
Movement on the deferred tax liability of the defined benefit pension scheme	(8)	43
Impact of change in the UK tax rate	-	(103)
<b>Total deferred tax</b>	<b>(8)</b>	<b>(60)</b>
<b>Total tax on profit</b>	<b>(533)</b>	<b>(60)</b>

### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 – lower than) the standard rate of corporation tax in the UK of 19.25% (2016 – 20%). The differences are explained below:

	2017	2016
	£'000	£'000
<b>Profit before taxation</b>	<b>6,298</b>	<b>3,075</b>
Profit at standard rate of corporation tax in the UK of 19.25% (2016 – 20%)	1,212	615
Expenses not deductible for tax purposes	90	113
Deferred tax not recognised	(1,310)	(685)
Income for losses surrendered in prior year by way of group relief	(525)	-
Re-measurement of deferred tax – change in the UK tax rate	-	(103)
<b>Total tax credit for the year</b>	<b>(533)</b>	<b>(60)</b>

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 11. Tax on profit (continued)

#### Factors that may affect future tax charges

Changes 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.

### 12. Intangible assets

	Software £'000	Licences £'000	Total £'000
<b>Cost</b>			
At 1 January 2017 as previously reported	29,144	9,509	38,653
Prior year adjustment	4,829	-	4,829
At 1 January 2017 as restated	33,973	9,509	43,482
Additions	1,357	234	1,591
Disposals	(2,629)	-	(2,629)
At 31 December 2017	32,701	9,743	42,444
<b>Accumulated amortisation</b>			
At 1 January 2017	24,534	7,800	32,334
Charge for the year	2,125	1,338	3,463
Disposals	(58)	-	(58)
At 31 December 2017	26,601	9,138	35,739
<b>Net book value</b>			
At 31 December 2017	6,100	605	6,705
At 31 December 2016	9,439	1,709	11,148

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

The prior year adjustment relates to intangible assets which were held in assets in the course of construction and reported under tangible assets in the prior year.

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 13. Goodwill

	<b>Total</b>
	<b>£'000</b>
<b>Cost</b>	
At 1 January 2017	7,504
At 31 December 2017	7,504
<b>Net book value</b>	
At 31 December 2017	7,504
At 31 December 2016	7,504

### Reconciliation of intangible assets

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Intangible assets (Note 12)	6,705	11,148
Goodwill (Note 13)	7,504	7,504
<b>Total intangible assets</b>	<b>14,209</b>	<b>18,652</b>

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 14. Tangible assets

	Plant and machinery	Telecom equipment	Office equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2017 as previously reported	210,677	11,168	21,225	8,957	252,027
Prior year adjustment	-	-	-	(4,829)	(4,829)
At 1 January 2017 as restated	210,677	11,168	21,225	4,128	247,198
Additions	3,362	-	257	3,464	7,083
Disposals	(2,159)	(500)	(235)	(182)	(3,076)
Transfers	5,061	-	135	(5,196)	-
At 31 December 2017	216,941	10,668	21,382	2,214	251,205
<b>Accumulated depreciation</b>					
At 1 January 2017	202,099	10,782	21,200	-	234,081
Charge for the year	4,263	168	280	-	4,711
Disposals	(1,809)	(493)	(120)	-	(2,422)
At 31 December 2017	204,553	10,457	21,360	-	236,370
<b>Net book value</b>					
At 31 December 2017	12,388	211	22	2,214	14,835
At 31 December 2016	8,578	386	25	4,128	13,117

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 15. Debtors

	2017	2016
	£'000	£'000
<b>Amounts falling due after more than one year</b>		
Finance lease debtors	375	438
	<b>375</b>	<b>438</b>
	2017	2016
	£'000	£'000
<b>Amounts falling due within one year</b>		
Trade debtors	35,070	27,315
Amounts owed by group undertakings	57,152	63,506
Other debtors	454	27
Prepayments and accrued income	22,381	20,545
Finance lease debtors	354	726
Deferred taxation	621	737
	<b>116,032</b>	<b>112,856</b>

Impairment is based on the ageing of the trade debtors, as follows:

Not past due	1%,
90-120 days past due	50%
120-180 days past due	75%
>180 days past due	100%

The provision against trade debtors is £391,071 (2016: £422,601).

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 amount 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.

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 16. Finance lease debtor

	2017	2016
	£'000	£'000
Total receivable within one year	362	742
Less: Interest allocated to future periods	(8)	(16)
	354	726
Total receivable within two to five years	383	448
Less: Interest allocated to future periods	(8)	(10)
	375	438

### 17. Cash at bank and in hand

	2017	2016
	£'000	£'000
Cash at bank and in hand	6,504	4,082



# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 18. Creditors: Amounts falling due within one year

	2017	2016
	£'000	£'000
Other loans	533	197
Trade creditors	2,254	4,189
Amounts owed to group undertakings	79,922	73,323
Other taxation and social security	4,740	1,912
Other creditors	2,964	2,372
Accruals and deferred income	41,954	54,227
	132,367	136,220

Included within amounts owed to group undertakings, in 2016, is a loan from Deutsche Telekom Aktiengesellschaft, the company's ultimate parent company. This was fully repaid in September 2017.

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.

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%.

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 19. Deferred taxation

	Deferred tax £'000
At 1 January 2017	737
Credited to the income statement	8
Charged directly to other comprehensive income	(124)
<b>At 31 December 2017</b>	<b>621</b>

The deferred tax asset is made up as follows:	2017 £'000	2016 £'000
Pension deficit	621	737
	<b>621</b>	<b>737</b>

The deferred tax asset relating to the pension deficit was £1,225,000 in 2017 (2016: £1,341,000). T-Systems Limited recognised £621,000 in 2017 (2016: £737,000).

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. Whilst the company reports a profit in 2017 it is felt that profitability should be demonstrated on an ongoing basis in order to provide sufficient evidence that the asset will be recoverable.

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

	2017 £'000	2016 £'000
Capital allowances in advance of depreciation	34,702	42,241
Other timing issues	731	907
	<b>35,433</b>	<b>43,148</b>

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 20. Provisions for liabilities

	Asset retirement obligations £'000	Onerous lease provision £'000	Total £'000
At 1 January 2017	1,915	395	2,310
Additions	121	-	121
Utilised in year	-	(214)	(214)
<b>At 31 December 2017</b>	<b>2,036</b>	<b>181</b>	<b>2,217</b>

#### 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.

#### 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 in 2012. Amounts have been provided for in full (net of minimum rental income receivable from the sublets of both sides) until 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 2017**

### **21. Pension commitments**

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 £3,819,807 (2016: £4,075,877).

#### **(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 2013 and the Plan as at 31 December 2014. This has been rolled forward to 31 December 2017 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 2017 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 2017

### 21. Pension commitments (continued)

	2017 £'000	2016 £'000
Equities (UK and overseas)	31,623	30,752
Bonds	15,016	12,639
Cash/Other	140	87
<b>Total plan assets</b>	<b>46,779</b>	<b>43,478</b>

	2017 £'000	2016 £'000
Fair value of plan assets	46,779	43,478
Present value of plan liabilities	(53,117)	(50,505)
<b>Net pension scheme liability</b>	<b>(6,338)</b>	<b>(7,027)</b>

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

	2017 £'000	2016 £'000
Current service cost	(326)	(322)
Net interest on obligation	(174)	(44)
Administration costs paid	(23)	(23)
<b>Total</b>	<b>(523)</b>	<b>(389)</b>
<b>Actual return on scheme assets</b>	<b>3,470</b>	<b>5,281</b>

Reconciliation of present value of plan liabilities were as follows:

	2017 £'000	2016 £'000
Opening defined benefit obligation	(50,505)	(40,361)
Current service cost	(326)	(322)
Contribution by scheme participants	(49)	(48)
Actuarial (losses) / gains – Experience	(403)	2,232
Actuarial gains – Demographic assumptions	-	1,274
Actuarial (losses) – Financial assumptions	(1,220)	(13,228)
Interest cost	(1,289)	(1,524)
Benefits paid	675	1,472
<b>Closing defined benefit obligation</b>	<b>(53,117)</b>	<b>(50,505)</b>

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 21. Pension commitments (continued)

Reconciliation of present value of plan assets were as follows:

	2017 £'000	2016 £'000
Opening fair value of scheme assets	43,478	39,038
Actuarial gains	2,355	3,801
Interest income on plan assets	1,115	1,480
Contributions by employer	480	606
Contributions by scheme participants	49	48
Administration costs paid	(23)	(23)
Benefits paid	(675)	(1,472)
	<b>46,779</b>	<b>43,478</b>

As at the last valuation date there were 15 active members, 126 deferred members and 33 members in retirement.

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

	2017 %	2016 %
Discount rate	2.4	2.6
Future salary increase	2.9	3.0
Future pension increase:		
- April 1997 – September 2005 (LPI5%)	2.9	2.95
- Post October 2005 (LPI2.5%)	2.1	2.20
Retail price inflation	3.1	3.2
Consumer price inflation	1.9	2.2
Mortality rates:	Years	Years
- For a male aged 65 now	22.6	22.5
- For a female aged 65 now	24.8	24.7
- For a male aged 65 in 15 years	24.0	23.9
- For a female aged 65 in 15 years	26.2	26.1

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2017 1. Pension commitments (continued)

Sensitivity analysis - increase/(decrease) in surplus:			2017 £'000	2016 £'000
-	Discount rate	1% increase	(11,607)	(10,914)
-	Discount rate	1% decrease	16,058	15,062
-	Salary increases	0.5% increase	392	312
-	Salary increases	0.5% decrease	(375)	(299)
-	Pension increases	0.25% increase	2,215	2,056
-	Pension increases	0.25% decrease	(2,097)	(1,946)
-	Mortality	1 year increase	2,150	2,003
-	Mortality	1 year decrease	(1,945)	(1,849)

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 high 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:

	2017 £'000	2016 £'000
Less than 1 year	669	738
1 to 2 years	688	760
2 to 5 years	2,186	2,415
5 to 10 years	4,089	4,525

# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 22. Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid:	550	550

### 23. 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.

### 24. 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 2017 is £803,113 (2016: £493,300).

No cash-settled share-based payments had vested at 31 December 2017, nor at 31 December 2016.



# T-SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 25. Commitments under operating leases

At 31 December the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Not later than 1 year	2,522	5,207
Later than 1 year and not later than 5 years	3,531	8,110
<b>Total</b>	<b>6,053</b>	<b>13,317</b>

### 26. 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.

### 27. Related party undertaking

Entity:	T-Systems TMT Limited
Share Capital:	500,000 ordinary shares of £1 each
Proportion of shares held by direct parent (%):	100%
Registered Office:	Futura House, Bradbourne Drive, Tilbrook, Milton Keynes, MK7 8AZ

### 28. 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.