

Alcatel Submarine Networks UK Ltd
Annual Report and Financial Statements for the year ended
31 December 2018

Registered No. 01750343

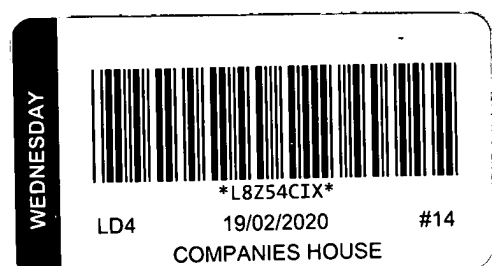


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Company Information

Directors:

AMP Biston
PPC Boulanger
NJ Hazell
RE Harrison
MES McGovern
VRP Lara

Auditors:

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers:

CITIBANK N.A.
New York Branch
111 Wall Street
New York NY 10043

Deutsche Bank

Winchester House
1 Great Winchester Street
London EC2N 2DB

Societe Generale

29 BD Haussmann
75009 Paris

Registered Office:

Telegraph House
10 Telcon Way
Greenwich
London SE10 0AG
UK

Strategic report for year ended 31 December 2018

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

Principal activity

The Company's principal activities during the year were the development and manufacture of submarine telecommunication systems for the immediate parent company, Alcatel Submarine Networks SAS.

Review of the business

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

	2018	2017	Change
	£'000	£'000	%
Revenue	50,438	90,000	(44.0)%
Operating Profit	33	4,128	(99.2)%
Profit before tax (PBT)	1,792	3,522	(49.1)%
Profit after tax	3,004	4,315	(30.4)%
Shareholders' funds	52,315	69,678	(24.9)%
Current assets as a ratio of current liabilities (‘quick ratio’)	1.8	3.7	(51.3)%
Average number of employees	194	183	6.0%

2018 was a year of transition to a new technology. The marketplace for submarine telecommunication systems requires the highest standards - these have been achieved, and the foundation is established for high activity in later years, albeit with start-up re-scheduling that has reduced revenue and profitability in 2018.

The company has completed its facility upgrade, with a further, final investment of £2.8m. The Greenwich facility now reflects the high standard of the submarine telecommunication systems the company supplies, at a lower fixed cost.

The parent company is diversifying into other sectors and investment has started in related production at ASN UK, this will show as increased activity in subsequent years.

Shareholder funds decreased in the year mainly due to dividend payment to our Parent company of £20m.

During 2018 a deal was done with Nokia to transfer our Defined Pension Scheme Assets and Liabilities to Nokia, so as at the end of 2018; the company will no longer show any asset or liability in relation to this and will not be reported going forward.

Strategic report for year ended 31 December 2018

Principal risks and uncertainties

The Company's activities expose it to a number of financial instrument risks including cash flow risk, interest rate risk, foreign currency risk and liquidity risk.

The main risks associated with the Company's financial assets and liabilities are set out below.

Interest rate risk

The Company's exposure to the risk for changes in market interest rates is limited to our deposits, so is minimal.

Brexit risk

With the ongoing discussions from the EU, the company is holding monthly meetings to keep updated with what could be impacted and take action to minimise this.

Credit risk

The Company's income is derived from sales, commissions and cost recharges from Alcatel Submarine Networks SAS based in France. This is our immediate parent company and credit risk is considered to be minimal.

Foreign currency risk

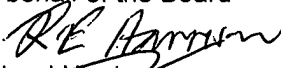
At the year end the Company's net position was a few forward currency contracts to cover USD purchases.

The Company uses forward currency contracts to eliminate the currency exposures on all material transactions for sales or purchases. It is the Company's policy to negotiate the terms of the forward currency contracts to match, as closely as possible, the terms of the hedged item in order to maximise hedge effectiveness.

Liquidity risk

The Company aims to mitigate liquidity risk by managing cash generated by its operations. Capital expenditure is carefully controlled through authorisation limits and cash payback periods are applied as part of the investment appraisal process. Flexibility is maintained by short-term borrowing or lending within the Nokia group.

On behalf of the Board



Richard Harrison

Director

18 February 2020

Director's report

for year ended 31 December 2018

Registered No. 01750343

The Directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

The directors who served the Company during the year and upto the date of signing of financial statements were:

PEO Piron (Resigned on 10 October 2019)

RE Harrison

FJ Lacroix (Resigned on 18 March 2019)

FH Maccary (Resigned on 29 March 2018)

PS Grumett (Resigned on 16 January 2019)

SJ Dyson (Resigned on 12 July 2019)

MES McGovern

VRP Lara (Appointed on 29 March 2018)

PPC Boulanger (Appointed on 5 March 2019)

NJ Hazell (Appointed on 2 January 2019)

AMP Biston (Appointed on 14 October 2019)

Dividends

The directors recommended a £20m payment during 2018 (2017 – £80m).

Financial risk management

The Company's exposure to financial risk management is outlined in the strategic report.

Political and charitable contribution

The Company did not make any political or charitable donations in the year (2017 – £nil).

Employee involvement

The Company is an equal opportunities employer and ensures that employees or job applicants are assessed on their merits and suitability. No employee or candidate receives less favourable treatment than others on the grounds of sex, race, colour, nationality, ethnic or national origin, marital status, disability or religion.

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

The Company places considerable value on the involvement of its employees in the conduct of the business and participation is encouraged by means of the Corporate Intranet, road-shows and team briefings. Employees participate directly in the success of the business through incentive schemes are operated by Nokia Oja.

Director's report (continued)

for year ended 31 December 2018

Director indemnity provision

The Company has granted an indemnity to all of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

The Company meets its day to day working capital requirements through cash pooling arrangements with the group companies. The directors' expectation is that this facility will be available for the foreseeable future. There are no other banking facilities that the Company is reliant upon. The immediate parent (Alcatel Submarine Networks SAS) undertaking has expressed its willingness to provide financial support to Alcatel Submarine Networks UK Ltd for the period of 12 months from the signing of Financial Statements by the auditors.

Therefore the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the meeting for re-appointment of Ernst & Young LLP as auditor.

On behalf of the Board



Richard Harrison

Director

18 February 2020

Director's responsibilities statement

for year ended 31 December 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALCATEL SUBMARINE NETWORKS UK LTD

Opinion

We have audited the financial statements of Alcatel Submarine Networks UK Ltd for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Stuart Darrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 February 2020

Statement of profit or loss

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	3	50,438	90,000
Cost of sales		(49,379)	(87,120)
Gross Profit		1,059	2,880
Selling and distribution expenses		(1,036)	(1,957)
Administrative expenses		(3,846)	(6,768)
Other operating expenses		(2,154)	(474)
Other operating income		6,010	10,608
Operating Profit	4	33	4,289
Finance income	6	1,785	671
Finance costs	7	(27)	(1,438)
Profit before taxation		1,792	3,522
Taxation	8	1,213	793
Profit for the financial year		3,004	4,315

All items dealt with in arriving at the profit before taxation relate to continuing operations.

The notes on pages 14 to 40 are an integral part of these financial statements.

Statement of other comprehensive income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Profit for the financial year		3,004	4,315
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement gain/ (loss) recognised on defined benefit pension schemes		(367)	200
Total other comprehensive income for the year, net of tax		(367)	200
Total comprehensive income for the year, net of tax		2,637	4,515

The notes on pages 14 to 40 are an integral part of these financial statements.

Statement of changes in equity

at 31 December 2018

	Issued capital (note 15) £'000	Retained earnings £'000	Total £'000
At 1 January 2017	10,000	135,163	145,163
Profit for the financial year	-	4,315	4,315
Other comprehensive income	-	200	200
Total comprehensive income for the year	-	4,515	4,515
Dividend paid during the year	-	(80,000)	(80,000)
At 31 December 2017	10,000	59,678	69,678
Profit for the financial year	-	3,004	3,004
Other comprehensive income / (Expense)	-	(367)	(367)
Total comprehensive income for the year	-	2,637	2,637
Dividend paid during the year	-	(20,000)	(20,000)
At 31 December 2018	10,000	42,315	52,315

The notes on pages 14 to 40 are an integral part of these financial statements.

All amounts relate to continuing operations.

Statement of financial position

at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	9	28,919	25,344
		28,919	25,344
Current assets			
Inventories	11	40,011	24,064
Trade and other receivables	13	8,439	27,403
Investments	12	-	7,034
Cash and cash equivalents		5,748	3,623
		54,198	62,124
Total assets		83,117	87,468
Equity and liabilities			
Equity			
Issued capital	15	10,000	10,000
Retained earnings		42,315	59,678
Total equity		52,315	69,678
Non-current liabilities			
Net employee defined benefit liabilities	18	-	1,228
		-	1,228
Current liabilities			
Trade and other payables	14	25,877	16,562
Other current liabilities	12	4,925	-
		30,802	16,562
Total equity and liabilities		83,117	87,468

The notes on pages 14 to 40 are an integral part of these financial statements.

By the order of Board



Richard Harrison
Director

18 February 2020

Notes to the financial statements

at 31 December 2018

1 General information and statement of compliance with FRS 101

Alcatel Submarine Networks UK Ltd (the 'Company') is a private Company limited by shares, domiciled and incorporated in United Kingdom. The registered office of the Company is given on page 1. The nature of Company's operations and its principal activities are set out in business review section. The financial statements of the Company for the year ended 31 December 2018 were authorised to issue by the board of directors on 18 February 2020 and were signed on the board's behalf by Richard Harrison.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of its ultimate parent undertaking, Nokia Oja, which are publicly available.

The principal accounting policies adopted by the Company are set out in Note 2.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis and are in compliance with FRS 101 - Reduced Disclosure Framework and with applicable accounting standards. The financial statements are prepared on going concern basis.

The Company has taken the advantage of the following disclosure exemptions allowed under this standard and the Company's immediate parent undertaking, Nokia Oja was notified of and did not object to the use of disclosure exemptions:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- (d) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements ('IAS 1') to present comparative information in respect of:
 - i. paragraph 79(a)(iv) of IAS 1;
 - ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - iii. paragraph 118(e) of IAS 38 Intangible Assets;
- (e) the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- (f) the requirements of IAS 7 Statement of Cash Flows;
- (g) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures ('IAS 24');
- (h) the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- (i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.
- (j) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

2.2 Judgments and key sources of estimation uncertainty

The preparation of financial statements requires management to make assumptions, estimates and judgements that affect the amounts reported as assets and liabilities as at the balance sheet date and the amounts reported as revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.2 Judgments and key sources of estimation uncertainty (continued)

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

a) Valuation allowance for inventories and work in progress

Inventories and work in progress are measured at the lower of cost or net realizable value. Valuation allowances for inventories and work in progress are calculated based on an analysis of foreseeable changes in demand, technology or the market, in order to determine obsolete or excess inventories and work in progress.

b) Impairment of customer receivables

An impairment loss is recorded for customer receivables if the expected present value of the future receipts is lower than the carrying value. The amount of the impairment loss reflects both the customers' ability to honour their debts and the age of the debts in question. A higher default rate than estimated or deterioration in our major customers' creditworthiness could have an adverse impact on our future results.

c) Operating lease commitments- Company as lessee

The Company has entered into leases of car rental and offices. The Company has determined, based on an evaluation of the terms and conditions of the arrangements such as the lease term not constituting a substantial portion of the economic life of property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the leased property, and accounts for the contracts as operating leases.

The following estimates are dependent upon assumptions which could change in the next financial year and could have a material effect on the carrying amount of assets and liabilities recognised at the balance sheet date.

d) Estimation of useful life

The depreciation charge for an asset is derived using estimates of its expected useful life and expected residual value, which are reviewed annually. Increasing an asset's expected life or residual value would result in a reduced depreciation charge in the statement of profit or loss. Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected changes in technology.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.2 Judgments and key sources of estimation uncertainty (continued)

e) Measurement of pension and other post-employment benefits

The cost of defined benefit pension plans 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 the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 17.

2.3 Summary of significant accounting policies

The principal accounting policies adopted are set out below:

a) Going concern

The Company meets its day to day working capital requirements through cash pooling arrangements with the group companies. The directors' expectation is that this facility will be available for the foreseeable future. There are no other banking facilities that the Company is reliant upon. The immediate parent (Alcatel Submarine Networks SAS) undertaking has expressed its willingness to provide financial support to Alcatel Submarine Networks UK Ltd for the foreseeable future.

Therefore the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

b) Foreign currency translation

The financial statements are presented in functional currency of pounds Sterling (£), rounded to the million, unless otherwise stated.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met and costs of dismantling and removing the asset. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognised in profit or loss as incurred.

The cost of property, plant and equipment other than freehold land, is depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

Plant and machinery	-	5 to 10 years
Freehold buildings	-	33 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Useful life and residual values are reviewed annually and where adjustments are required, these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of profit or loss in the period of derecognition.

e) Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the Company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease. An impairment loss recognised for all assets is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

f) Provision for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

f) Provision for liabilities (continued)

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the profit or loss account net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

g) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the statement of profit or loss on a straight line basis over the lease term, including the effect of lease incentives.

h) Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

A review of IFRS 9, was undertaken and it was determined that there was no difference from current practices.

(a) Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

At 31 December 2017, the Company had investments in group undertakings, amount owed by group undertakings, trade and other receivables as financial assets which are classified as loans and receivables.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

h) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest (EIR) method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is shown separately in the statement of profit or loss as finance revenue. Losses arising from impairment are recognised in the statement of profit or loss in operating expenses before depreciation.

Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

For receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account.

When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

(b) Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in profit or loss.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

h) Financial instruments (continued)

After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method.

The Company's financial liabilities as at 31 December 2017 include trade and other payables, accruals and amount owed to group undertakings.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the statement of profit or loss.

(c) Derecognition of financial liabilities

The Company de-recognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(d) Forward foreign currency contracts

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency.

i) Fair value measurement

The Company measures foreign currency forward contracts at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

i) Financial instruments (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale : purchase cost on a first in, first-out basis

Work in progress : cost of direct materials and labour

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

k) Prepayments and accrued income

Prepayments comprise payments made in advance relating to the following year, and income relating to the current year which will not be received until after the balance sheet date (such as interest receivable on loans or deposits). Prepayments are recognised at the transaction price.

l) Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year which will not be paid until after the balance sheet date and income received in advance, relating to the following year. Accruals and deferred income are recognised at the transaction price.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

m) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the statement of profit or loss.

n) Revenue

Majority of Turnover is derived from sales to group undertakings. Revenue is recognised once group undertaking has completed their acceptance procedures and confirmation is issued to the company.

Turnover is based on recharge of costs to the group undertaking with a fixed profit element.

A review of IFRS 15, was undertaken and it was determined that there was no difference from current practices.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

n) Other Operating Income

Other Operating income is created based on a cost plus model of operating expenses charged.

o) Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in interest receivable and similar income in the profit or loss account.

p) Pensions

During 2018 an agreement was made between the Company and its parent company Nokia to transfer all assets and liabilities relating to the Pension.

The Company operated a defined contribution pension scheme in 2017. The assets of the scheme were held separately from those of the Company in an independently administered fund. The amount charged to the statement of profit or loss represents the contributions payable to the scheme in respect of the accounting period. Contributions to defined contribution schemes are recognised in the statement of profit or loss account in the period in which they become payable.

The Company participated in the Alcatel-Lucent Pension Scheme, a group defined benefit and defined contribution scheme in the UK.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the statement of profit or loss during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

Notes to the financial statements (continued)

at 31 December 2018

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

q) Pensions (continued)

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

r) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

Notes to the financial statements (continued)

at 31 December 2018

3 Revenue

Revenue represents amounts invoiced, net of value added tax.

	2018 £'000	2017 £'000
Sale of goods	<u>50,438</u>	<u>90,000</u>

	2018 £'000	2017 £'000
Continental Europe	50,438	90,000
	<u>50,438</u>	<u>90,000</u>

The significant majority of sales are to group undertakings

4 Operating Profit

This is stated after charging/(crediting):

	2018 £'000	2017 £'000
Operating lease rentals – car parking facility	-	100
- offices	-	100
Total operating lease rentals	<u>-</u>	<u>200</u>
Auditor's remuneration	90	90
Depreciation of own fixed assets	2,102	1,470
Cost of inventories recognised as an expense (included in cost of sales)	32,846	64,903
	<u> </u>	<u> </u>

Notes to the financial statements (continued)

at 31 December 2018

5 Staff costs and directors' remuneration**a) Staff costs**

The staff costs comprise:

	2018	2017
	£'000	£'000
Wages and salaries	10,843	11,094
Social welfare costs	1,313	1,248
Other pension costs	1,414	2,677
	13,570	15,019

The average numbers of employees during the year, was as follows:

	2018	2017
	Number	Number
Manufacturing and installation	124	115
Technical and administrative	70	68
	194	183

b) Directors' remuneration

	2018	2017
	£'000	£'000
Directors' remuneration	533	534
	533	534

	2018	2017
	Number	Number
Number of directors accruing benefits under defined benefit scheme	1	3
Number of directors who exercised share options	1	3

In respect of highest paid director

	2018	2017
	£'000	£'000
Aggregate remuneration	141	137
Accrued pension at the end of the year	-	-
	141	137

The remuneration of certain directors is borne by other group companies and, in the opinion of the directors, it is not practicable to apportion their remuneration between qualifying services to the company and services to the rest of the group

Notes to the financial statements (continued)

at 31 December 2018

6 Finance income

	2018	2017
	£'000	£'000
Interest receivable from group undertakings	2	99
Total interest income for financial assets measured at amortised cost	2	99
Foreign exchange differences	1,028	-
Net gain on financial assets at fair value through profit and loss	755	572
Total finance income	1,785	671

7 Finance costs

	2018	2017
	£'000	£'000
Interest payable from group undertakings	27	-
Total interest expense for financial assets measured at amortised cost	27	-
Net loss on financial liabilities at fair value through profit and loss	-	-
Foreign exchange differences	-	1,438
Total finance costs	27	1,438

Notes to the financial statements (continued)

at 31 December 2018

8 Tax**(a) Tax charged in the statement of profit or loss**

	2018	2017
	£'000	£'000
Current income tax:		
Current Year	(651)	-
Prior Year adjustment	(562)	(793)
Total current income tax	(1,213)	(793)
Deferred tax:		
Origination and reversal of temporary differences	747	-
Prior Year adjustment	304	406
Adjustment in provision	(1,051)	(406)
Impact of change in tax laws and rates	-	-
Total deferred tax	-	-
Taxation	(1,213)	(793)

(b) Reconciliation of total tax charge

The tax expense in the statement of profit or loss for the year is higher than the standard rate of corporation tax in the UK of 19% (2018: 19.25%). The differences are reconciled as below:

	2018	2017
	£'000	£'000
Profit before tax	1,792	3,520
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19.25%)	340	678
<i>Effects of:</i>		
Expenses not deductible for tax purposes	6	56
Other timing differences	-	(561)
Capital allowances in excess of depreciation	(997)	(173)
Prior Year adjustment	(562)	(793)
Losses carried forward	-	-
Reversal of deferred tax	-	-
Taxation	(1,213)	(793)

Notes to the financial statements (continued)

at 31 December 2018

8 Tax (continued)

(c) Factors that may affect future tax charges:

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

(d) Deferred tax

The amount of deferred tax asset recognised in the financial statements and the potential amount not recognised are as follows:

	Recognised		Unrecognised	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
<i>Deferred tax asset</i>				
Tax losses carried forward	-	-	33,529	33,529
Pensions and post-employment benefits	-	-	-	209
Accelerated capital allowances	-	-	6,028	6,870
Provision and other temporary differences	-	-	-	-
	<u>-</u>	<u>-</u>	<u>39.5</u>	<u>40.6</u>

The deferred tax included in the profit or loss account is as follows:

	2018	2017
	£'000	£'000
Accelerated capital allowances	-	-
Tax losses carried forward	-	-
Increase in provision	-	-
General provision	-	-
Pensions and post-employment benefits	-	-
Change in tax laws and rates	-	-
Deferred tax (credit)/expense	<u>-</u>	<u>-</u>
		<u>£'000</u>
At 1 January 2018		-
Reversal of deferred tax		-
At 31 December 2018		<u>-</u>

Notes to the financial statements (continued)

at 31 December 2018

8 Tax (continued)

(d) *Deferred tax (continued)*

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

9 Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Total £'000
<i>Cost:</i>			
At 1 January 2018	25,942	32,243	58,185
Disposals	(144)	(2,633)	(2,777)
Additions	2,791	2,961	5,752
At 31 December 2018	28,589	32,571	61,160
<i>Depreciation</i>			
At 1 January 2018	4,828	28,013	32,841
Disposals	(95)	(2,607)	(2,702)
Charged during the year	909	1,193	2,102
At 31 December 2018	5,642	26,599	32,241
<i>Carrying amount:</i>			
At 31 December 2018	22,947	5,972	28,919
At 31 December 2017	21,114	4,230	25,344

As at 31st December, Company recorded an assets under construction amounting to £2.5m which are included within plant and machinery.

Notes to the financial statements (continued)

at 31 December 2018

10 Financial instruments

10.1 Financial assets

	2018 £'000	2017 £'000
Financial assets at amortised cost		
Investments (Note 12)	-	7,034
Trade and other receivables (Note 13)	8,439	27,403
Total financial assets	8,439	34,437

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are nevertheless intended to reduce the level of foreign currency risk for expected sales and purchases.

Loans and receivables are non-derivatives financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

10.2 Financial liabilities

	2018 £'000	2017 £'000
Investments (Note 12)	4,925	
Trade and other payables (Note 14)	25,877	16,562
Total financial liabilities	30,802	16,562

Derivatives not designated as hedging instruments reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are nevertheless intended to reduce the level of foreign currency risk for expected sales and purchases.

Notes to the financial statements (continued)

at 31 December 2018

10 Financial instruments (continued)

10.3 Fair values

The Company uses foreign currency denominated forward currency contracts to manage some of its transaction exposures. These contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from 1 to 12 months. Foreign exchange forward contracts and commodity forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Company's own non-performance risk. As at 31 December 2018, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities:

Fair value measurement hierarchy for financial liabilities as at 31 December 2018:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		£'000	£'000	£'000	£'000
Foreign exchange forward contracts - US dollar	31 December 2018	27,541		27,541	
Foreign exchange forward contracts - EUROS	31 December 2018	9,742		9,742	

Fair value measurement hierarchy for financial liabilities as at 31 December 2017:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		£'000	£'000	£'000	£'000
Foreign exchange forward contracts - US dollar	31 December 2017	3,153		3,153	

Notes to the financial statements (continued)

at 31 December 2018

10 Financial instruments (continued)

10.3 Fair values (continued)

The table below summarises the maturity profile of the financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Foreign exchange forward contracts- US Dollar	-	9,715	17,826	27,541
Foreign exchange forward contracts- EUROS	-	5,238	4,504	9,742

Year ended 31 December 2017	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	Total £'000
Foreign exchange forward contracts- US Dollar	-	3,153	-	3,513

11 Inventories

	2018 £'000	2017 £'000
Manufacturing - Raw materials	31,828	16,759
Manufacturing – WIP	8,179	7,233
Manufacturing – Finished Goods	4	72
	40,011	24,064

The difference between purchase price or production cost of inventories and their replacement cost is not material.

12 Investments (Other current Liabilities)

	2018 £'000	2017 £'000
Amounts owed by/ (to) group	(4,925)	7,034
	(4,925)	7,034

Investments are either a mix of a long term money market deals and a cash pooling arrangement with Central Treasury.

Though for both Year end 2017 and 2018 this balance was purely a cash pool balance. Thus the negative Investment balance.

Notes to the financial statements (continued)

at 31 December 2018

13 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	524	611
Other Debtors	292	-
Value Added Tax recoverable	1,400	1,212
Amounts owed by group undertakings	6,223	25,580
	8,439	27,403

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

14 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	9,407	8,603
Accruals	7,785	3,851
Amounts owed to group undertakings	6,471	1,102
Other taxes and social security costs	337	294
Other payables	1,877	2,712
	25,877	16,562

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

15 Issued share capital

	2018 Number 000'	2017 Number 000'	2018 £'000	2017 £'000
<i>Authorised</i>				
Ordinary shares of £1 each	10,000	10,000	10,000	10,000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	10,000	10,000	10,000	10,000

Notes to the financial statements (continued)

at 31 December 2018

16 Off-balance sheet arrangements

The Company enters into forward foreign contracts, as these arrangements reduce the risk of currency fluctuation. The Company forward contracts are disclosed in note 10. There are no other material off-balance sheet arrangements.

17 Pensions

During 2018 an agreement was made between the Company and its parent company Nokia to transfer all assets and liabilities relating to the Pension.

Previously the Company participated in the Alcatel-Lucent Pension Scheme, a group defined benefit and defined contribution scheme in the UK. This scheme brings together the 2 Defined benefit and 1 Hybrid schemes in a Sectionalized Merger in early 2015.

The company participated in the Alcatel-Lucent Pension Scheme. The scheme has 3 sub-sections covering Alcatel-Lucent companies in the UK. The section of the Final Salary scheme to which the company contributes was closed to new entrants with effect from 1st July 2001. The assets of the scheme are held in a separate fund, administered by a corporate trustee (Alcatel-Lucent Pension Trustees Limited) and the scheme does not invest in the company.

The pension scheme assets are held in a separate Trustee administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries.

The appointment of trustees to the fund is determined by the scheme's trust documentation. The Company has a policy that one-third of all trustees should be nominated by members of the fund.

The following disclosures relate to the defined benefit section only:

Funding policy for the defined benefit section of the Scheme is determined following actuarial recommendations. A full liability valuation was carried out as at 31 December 2017 based on membership data provided as at 30 June 2017 by a qualified actuary that takes into account of the requirements of IAS 19. The assets of the defined benefit section of the Scheme are stated at their estimated values as at 31 December 2017, based on market values as at 30 November 2017 where available and projected to the year-end. The following disclosures relate to the assets and liabilities attributable to the Company only.

Investments are well diversified such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2017 consists of Liability Driven Investments (LDI) and a bulk annuity policy in respect of the majority of the section's pensioner liabilities. In addition, the section currently invests in global credit, infrastructure and equities (in a globally diversified portfolio).

Notes to the financial statements (continued)**at 31 December 2018****17 Pensions (continued)**

The assets and liabilities of the schemes for arriving at retirement benefit obligation at 31 December are as follows:

	At year end 31 December 2018 £'000	At year end 31 December 2017 £'000
<i>Scheme assets at fair value:</i>		
Equities	-	25,400
Corporate bonds	-	106,600
Real estate fund	-	8,500
Other	-	139,500
Fair value of scheme assets	-	280,000
Present value of scheme liabilities	-	(242,700)
Defined benefit pension plan surplus	-	37,300
Unrecognised Surplus	-	(38,500)
Amount of reserve	-	(1,228)

The amounts recognised in the statement of profit or loss and in the statement of comprehensive income for the year are analysed as follows:

Recognised in the statement of profit or loss:

	2018 £'000	2017 £'000
Current service cost	-	(1,700)
Past service cost	-	-
Recognised in arriving at operating profit	-	(1,700)
Net interest on defined benefit liability	-	(100)

Notes to the financial statements (continued)

at 31 December 2018

17 Pensions (continued)

Taken to the statement of comprehensive income

	2018 £'000	2017 £'000
Return on plan assets (excluding amounts included in net interest expenses)	-	27,300
Actuarial changes arising from changes in demographic assumptions	-	(3,000)
Actuarial changes arising from changes in financial assumptions	-	(7,900)
Actuarial (losses)/gain	-	(1,900)
Effect on asset ceiling	-	(14,300)
Recognised in the statement of comprehensive income	-	200

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2018 £'000	2017 £'000
Defined benefit obligation at 1 January	-	(236,300)
Current service cost	-	(1,700)
Interest cost	-	(6,100)
Benefits paid	-	14,200
Actuarial gains and losses	-	(12,800)
Defined benefit obligation at 31 December	-	(242,700)

Notes to the financial statements (continued)

at 31 December 2018

17 Pensions (continued)

Changes in the fair value of plan assets are analysed as follows:

	2018	2017
	£'000	£'000
Fair value of plan assets at 1 January	-	256,200
Interest income on plan assets	-	6,700
Contributions by employer	-	4,000
Benefits paid	-	(14,200)
Return on asset	-	27,300
	<hr/>	<hr/>
Fair value of plan assets at 31 December	<hr/> -	<hr/> 280,000

Pension contributions are determined with the advice of independent qualified actuaries, Mercer, on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by Investment Manager.

Major assumptions are as follows:

	2018	2017
	%	%
<i>Major assumptions:</i>		
Rate of salary increases	-	4.1
Rate of increase in pensions in payment	-	3.1
Rate of increase of pensions in deferment	-	n.a.
Inflation RPI	-	3.1
Inflation CPI	-	2.3
Discount rate	-	2.45
Life expectancy (in years)		
Male member age 65 (current life expectancy)	-	23.6
Male member age 45 (life expectancy at age 65)	-	25.7

Sensitivity Analysis

Holding all other assumption as constant a 1% increase or decrease in the discount rate would change this item as below

	1%	-1%
Project Benefit	(205.8)	(289.9)

Notes to the financial statements (continued)

at 31 December 2018

18 Ultimate parent Company and controlling party

The Company's immediate parent undertaking is Alcatel Submarine Networks, a Company incorporated in France. The ultimate parent undertaking and controlling party is Nokia Oja, a Company incorporated in Finland. The largest group in which the results of Alcatel Submarine Networks UK Ltd are consolidated is that headed by Nokia Oja. The group financial statements of this group are available to the public and may be obtained from Nokia.

19 Post balance sheet event

No events having a significant impact on the accounts are to be reported.