

Expeditors International (UK) Limited

Annual report and financial statements

Registered number 1872622

For the year ended 31 December 2019

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Strategic report

Principal activities

Expeditors International (UK) Ltd ("the company") is a company limited by shares and incorporated in England and Wales. The company's registered office is 1 Ascot Road, Bedfont, Middlesex TW14 8QH. The company is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight, as well as acting as a customs broker. The company also provides additional services including order management, time definite transportation, warehousing and distribution, cargo insurance and customized logistics solutions.

Principal risks and uncertainties

International trade is influenced by many factors, including economic and political conditions in the United Kingdom and abroad, currency exchange rates and United Kingdom and foreign laws and policies relating to tariffs, trade restrictions, regional and global conflicts. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The result of the UK's referendum on EU membership has significantly increased uncertainty in this regard. The company cannot predict the changes that may be adopted, nor can the company predict the effects the adoption of any such changes will have on the company's business.

COVID-19 significantly impacted worldwide economic conditions and global trade and may continue to have an adverse effect on our operations, and the operations of our service providers and our customers, which may further impact our business. COVID-19 was declared as a global health emergency and later declared as a global pandemic by the World Health Organization. As a result, governments have implemented travel restrictions, mandated lockdowns and other precautionary measures that resulted in significant business and supply chain disruptions and a slowdown in international trade. This crisis has affected, and is expected to continue affecting, our business in many aspects. Governments have designated our operations as essential business and we activated our business continuity plan to be able to conduct operations. Our facilities and employees are operating under the constraints of special protective measures and many are working remotely. These disruptions are also threatening the financial stability of our service providers and the ability to efficiently and profitably route our customers' freight. Reduced flight schedules and cancellations have significantly reduced available space for airfreight, while ocean carriers have continued to manage their operating capacity. These freight market conditions have created and continue to create pricing volatility that challenges Expeditors' ability to maintain historical unitary profitability. Many of our customers are experiencing disruptions in their revenue and cash flow, prompting these customers to renegotiate contractual terms and increasing our accounts receivable collection risks. Such conditions could result in the loss of business and additional bad debt allowances in the future if our customers' ability to pay deteriorates. Although we are monitoring the situation, we cannot predict for how long, or the ultimate extent to which the pandemic and related precautionary measures may disrupt our operations. Any significant disruption resulting from this on a large scale or over an extended period of time would negatively affect our business and our financial results.

As a non-asset based carrier, the company does not own transportation assets. Rather, the company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. By consolidating shipments from multiple customers and concentrating its buying power, the company is able to negotiate favourable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

The company's ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean lines and governmental agencies. The company considers its current working relationships with these entities to be satisfactory. However, changes in space allotments available from carriers or changes in governmental quota restrictions could affect the company's business in unpredictable ways.

The company is a service business. The quality of this service is directly related to the quality of the company's employees. Identifying, training and retaining key employees is essential to continued growth and future profitability. In order to retain the services of highly qualified, experienced and motivated employees, the company places considerable emphasis on its non-equity incentive compensation programs.

Strategic report (continued)

Taking account of the above considerations, the company believes it is well positioned to grow the business, given the strong balance sheet and experienced workforce.

Statement on stakeholder relationships made under Section 172(1) of the Companies Act

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders. The directors take their duties very seriously, and the board is committed to engaging with key stakeholders when making decisions and formulating strategy.

As a private limited company, the directors consider the key stakeholders of Expeditors International (UK) Ltd to be; employees, customers, suppliers and the wider community within which Expeditors operates.

Expeditors continues to focus on executing key strategic initiatives that are designed to achieve long-term earnings growth. The strategic plan is to grow our business by focusing on the right markets and, within each market, on the right customers, that lead to profitable business growth. When these strategies are considered, the directors have regard to their wider obligations under Section 172 of the Act

By ensuring Expeditors achieves its strategic objectives of long-term earnings growth, combined with positive cashflow, this will result in a company that our employees, customers, suppliers and the wider community can rely on in the long term.

Expeditors engages with employees through an annual employee satisfaction survey, monthly branch meetings and town hall meetings led by senior management. Annual reviews are held with suppliers at their premises and customer seminars are held each year, to engage with suppliers and customers.

Business review

The company monitors the following key performance indicators:

KPI	2019	2018
	£m	£m
Turnover	163	160
Gross Profit	55	53
Operating Profit	8	8

Turnover and gross profit grew at a slower rate than expected due to a challenging year for the global airfreight market. There were imbalances between carrier capacity and demand in certain lanes, resulting in lower buy and sell rates. These conditions were exacerbated by on-going inter-governmental trade disputes and uncertainties. Customers remain focused on improving supply chain efficiency, reducing overall logistics costs by negotiating lower rates and utilising ocean freight whenever possible.

The company's balance sheet remains strong, with £16 million of net assets at 31 December 2019. The company owns freehold land and buildings with a net book value of £53 million, which are funded by a parent company USD loan of \$54 million (£41 million at 31 December 2019). The movement in the GBP/USD exchange rate during the year, resulted in an unrealised exchange gain of £1.2 million on the loan, compared to an unrealised loss of £2.4 million in 2018. Net current assets at 31 December 2019 were £8 million, including cash of £8 million.

Going concern

The company has traded profitably during the year and since the year end, the directors expect this to continue. The company has net current assets and net assets. As stated in note 13, the company has a parent company loan which is repayable on demand. However, the directors have agreed with the parent undertaking that it will not seek repayment of the loan prior to 31 December 2021, so long as the company maintains an interest in the property for which the loan was made.

Strategic report (continued)

Going concern (continued)

After taking into account the above factors, the directors believe that the company can manage its business risks successfully and are satisfied that the company has sufficient financial resources to enable it to continue operating in the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing the directors' report and financial statements.

By order of the board

Tim Barber

T Barber
Director
24 November 2020

1 Ascot Road
Bedfont
Middlesex
TW14 8QH

Directors' report

Directors

The directors who held office during the year and to the date of this report were as follows:

J S Musser
P M Coughlin (Resigned 15 January 2020)
T Barber
D Wall (Appointed 15 January 2020)

Results and dividend

The profit and loss account is set out on page 10 and shows the profit for the financial year.

The directors do not recommend the payment of a final dividend (2018: £nil). Interim dividends of £9,000,000 / £1,363.64 per share (2018: Nil) were paid to the ordinary shareholders.

Employees

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employees participate directly in the success of the company through profit sharing schemes and have the opportunity to invest in the group through participation in the employee share purchase scheme.

The company is committed to promoting equality of opportunity for all staff and job applicants. The company aims to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit. The company does not discriminate against staff on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

Financial risk management objectives and policies

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Liquidity risk

Liquidity risk arises from the company's management of working capital. It is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due.

The company reviews cash flow projections as well as information regarding cash balances. These reviews, as well as taking into consideration there is no external group debt, indicate the company expects to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Directors' report *(continued)*

Foreign exchange risk

Foreign exchange risk arises when entering into transactions denominated in a currency other than the functional currency. The company's policy is, where possible, to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency and to match liabilities denominated in a currency other than the functional currency with assets held in that currency.

Events after the reporting period

Since the balance sheet date, economic activity in the UK has been severely restricted by the measures put in place by the UK Government to control the spread of COVID-19 but, as described in note 1 to the financial statements, the directors do not expect there to be any impact from COVID-19 on the ability of the company to continue operating as a going concern for the foreseeable future.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO will therefore continue in office.

By order of the board

Tim Barber

T Barber
Director
24 November 2020

1 Ascot Road
Bedfont
Middlesex
TW14 8QH

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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. 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 Expeditors International (UK) Limited

Opinion

We have audited the financial statements of Expeditors International (UK) Limited ("the Company") for the year ended 31 December 2019 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, 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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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. 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 Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report *(continued)*

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 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 and Director's 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, 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 at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent auditor's report *(continued)*

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.

BDO LLP

Mark Hutton (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Guildford

Date 25 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Turnover	2	163,138	159,992
Cost of sales		(107,812)	(107,421)
Gross profit		55,326	52,571
Administrative expenses		(47,354)	(44,908)
Operating profit	3	7,972	7,663
Interest receivable and similar income	6	1,202	261
Interest payable and similar charges	7	(1,871)	(3,994)
Profit before taxation		7,303	3,930
Tax on profit	8	(842)	(58)
Profit for the financial year		6,461	3,872

All figures relate to continuing activities.

Notes on pages 13 to 24 form part of the financial statements.

Balance sheet
as at 31 December 2019

	<i>Note</i>	2019	2018
		£000	£000
Fixed assets			
Tangible assets	10	56,964	56,592
Current assets			
Debtors	11	40,101	43,694
Cash at bank and in hand		8,271	10,494
		<u>48,372</u>	<u>54,188</u>
Creditors: amounts falling due within one year	12	(40,051)	(43,188)
Net current assets		8,321	11,000
Total assets less current liabilities		65,285	67,592
Creditors: amounts falling due after more than one year	13	(47,059)	(48,221)
Provisions for liabilities	14	(2,406)	(2,430)
Net assets		15,820	16,941
Capital and reserves			
Called up share capital	16	7	7
Profit and loss account		15,813	16,934
Shareholder's funds		15,820	16,941

Notes on pages 13 to 24 form part of the financial statements.

These financial statements were approved by the board of directors on 24 November 2020 and were signed on its behalf by:

Tim Barber

T Barber
Director

Company registered number: **1872622**

Statement of changes in equity
for the year ended 31 December 2019

	Share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2018	7	12,029	12,036
Total comprehensive income for the year			
Profit for the year	-	3,872	3,872
	<hr/>	<hr/>	<hr/>
	-	3,872	3,872
Other changes to comprehensive income	-	(603)	(603)
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	1,636	1,636
Dividends	-	-	-
	<hr/>	<hr/>	<hr/>
	-	1,636	1,636
	<hr/>	<hr/>	<hr/>
At 1 January 2019	7	16,934	16,941
Total comprehensive income for the year			
Profit for the year	-	6,461	6,461
	<hr/>	<hr/>	<hr/>
	-	6,461	6,461
Other changes to comprehensive income	-	-	-
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	1,418	1,418
Dividends	-	(9,000)	(9,000)
	<hr/>	<hr/>	<hr/>
		(7,582)	(7,582)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	7	15,813	15,821
	<hr/>	<hr/>	<hr/>

Notes on pages 13 to 24 form part of the financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Expeditors International (UK) Ltd (the "Company") is a company limited by shares and incorporated in England and Wales.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Expeditors International of Washington Inc, includes the Company in its consolidated financial statements. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and are available to the public and may be obtained from www.expd.com. In these financial statements, the company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation

As the consolidated financial statements of Expeditors International of Washington Inc include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

There are no judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and no estimates with a significant risk of material adjustment in the next year.

Going concern

The company's principal business activities, together with the principal risks and uncertainties facing the company are set out in the strategic report. The company has traded profitably during the year and since the year end and the directors expect this to continue. The company has net current assets and net assets. As stated in note 13, the company has a parent company loan which is repayable on demand. However, the directors have agreed with the parent undertaking that it will not seek repayment of the loan prior to 31 December 2021, so long as the company maintains an interest in the property for which the loan was made.

The directors have prepared cash flow forecasts taking into account potential COVID 19 impacts and factoring on how the business performed during the first lock down phase in 2020 are satisfied that the business will continue to generate positive cash flow and the business will have sufficient cash resources to continue to meet its liabilities as they fall due for a period of at least 12 months from the sign off date of these accounts.

After taking into account the above factors, the directors believe that the company can manage its business risks successfully and are satisfied that the company has sufficient financial resources to enable it to continue operating in the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing the directors' report and financial statements.

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	40 years
Leasehold improvements	life of lease
Office furniture, fittings and equipment	33 $\frac{1}{3}$ % per annum
Warehouse equipment	20% per annum
Computer equipment	33 $\frac{1}{3}$ % per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits. This judgement takes account of technology innovations and maintenance.

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a *pro rata* basis.

Notes (continued)

1 Accounting policies (continued)

Impairment (continued)

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Foreign currencies

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Turnover and revenue recognition

Turnover represents charges made to customers for freight services carried out during the year, after deduction of credit notes and VAT.

The company derives its revenues from three principal sources: 1) airfreight services, 2) ocean freight and ocean services, and 3) customs brokerage and other services.

As a non-asset based carrier, the company does not own transportation assets. Rather, the company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers, acting as an indirect carrier. By consolidating shipments from multiple customers and concentrating its buying power, the company is able to negotiate favourable buy rates from direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

When acting as an indirect carrier, the company will issue a House Airway Bill (HAWB) or a House Ocean Bill of Lading (HOBL) to customers as the contract of carriage. In turn, when the freight is physically tendered to a direct carrier, the company receives a contract of carriage known as a Master Airway Bill for airfreight shipments and a Master Ocean Bill of Lading for ocean shipments. At this point, the risk of loss passes to the carrier, however, in order to claim for any such loss, the customer is first obligated to pay the freight charges. Based upon terms in the contract of carriage, revenues related to shipments where the company issues a HAWB or a HOBL are recognized at the time the freight is tendered to the direct carrier at origin.

Customs brokerage and other services involves providing services at destination, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers and arranging for delivery. Revenues related to customs brokerage and other services are recognized upon completion of the services.

Operating leases

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes (continued)

1 Accounting policies (continued)

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Provisions – Dilapidations

Where the company has a legal obligation, a dilapidations provision is created on inception of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease. Uncertainty regarding likely damage and cost is assessed with reference to third party quotes and likely damage requiring rectification. When the effect of the time value of money is material, the amount of the provision is recognised as the present value of the amount expected to be required to settle the obligation. The provision is discounted at a rate that reflects the current market assessment of the time value of money and risks specific to the liability.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Share-based payment transactions

The company is part of group share-based payment plans and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. The allocation is based on fair value of share-based payments received by employees of the company.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders.

Reserves

The company reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Profit and loss account represents cumulative profits and losses, net of dividends paid and other adjustments.

Notes (continued)

2 Analysis of turnover

The whole of the turnover is attributable to the one principal activity of the company.

	2019 £000	2018 £000
<i>By geographical market</i>		
United Kingdom	116,154	117,940
Rest of European Union	15,506	9,257
Rest of World	31,478	32,795
Total	<u>163,138</u>	<u>159,992</u>

3 Operating profit

This is arrived at after charging/(crediting):

	2019 £000	2018 £000
Audit of these financial statements	28	25
Amount receivable by the company's auditor in respect of: Tax compliance services	24	11
Depreciation	1,428	1,499
Operating Lease Expense	1,784	1,438
Share based payment expense	1,418	1,636
Foreign Exchange (gains)/losses	(878)	2,152

4 Remuneration of director

	2019 £000	2018 £000
Emoluments	2,372	1,255
Pension contributions	16	11
	<u>2,388</u>	<u>1,266</u>

Retirement benefits are accruing to 1 director (2018: 1 director) under money purchase schemes.

Share options were exercised by 3 directors (2018: 3 directors).

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2019	2018
Operations	457	455
Administration and finance	263	255
Sales	60	58
	<u>780</u>	<u>768</u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	39,712	31,638
Share based payments (see note 19)	1,419	1,636
Social security costs	6,288	4,094
Other pension costs (see note 18)	1,130	951
	<u>48,549</u>	<u>38,319</u>

6 Interest receivable and similar income

	2019 £000	2018 £000
Interest Receivable	39	37
Gain on foreign currency translation – amounts owed to group undertaking	-	-
Forex Gains	1,163	224
	<u>1,202</u>	<u>261</u>

7 Interest payable and similar charges

	2019 £000	2018 £000
Payable to group undertakings	1,587	1,618
Loss on foreign currency translation – amounts owed to group undertaking	284	2,376
	<u>1,871</u>	<u>3,994</u>

Notes (continued)

8 Taxation

	2019 £000	2019 £000	2018 £000	2018 £000
<i>UK corporation tax</i>				
Current tax on income for the period	1,249		593	
Adjustments in respect of prior periods	(16)		(3)	
Total current tax		1,233		590
<i>Deferred tax</i>				
Origination/reversal of timing differences	(391)		(532)	
Adjustments in respect of prior periods	-		-	
Total deferred tax		(391)		(532)
Tax charge/(credit) on profit/(loss) on ordinary activities		842		58

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit/(loss) for the year	6,461	3,872
Total tax expense/(credit)	842	58
Profit/(loss) excluding taxation	7,303	3,930
Tax using the UK corporation tax rate of 19.00%	1,388	747
Fixed Asset Differences	(357)	95
Non-deductible expenses	327	351
Income not taxable for tax purposes	-	(145)
Adjustments to brought forward values	-	(640)
Other Permanent differences	(649)	
Transfer Pricing Adjustments	283	205
Adjustments to tax charge relating to previous periods	(1)	(3)
Adjustments to tax charge relating to previous periods – deferred tax	-	-
Timing differences not recognised in the computation	(197)	(615)
Effect of changes in tax rates	48	63
Total tax expense included in profit or loss	842	58

9 Dividends

The aggregate amount of dividends comprises:

	2019 £000	2018 £000
Interim dividends paid of £1,364 (2018: £Nil) per share	9,000	-

10 Tangible fixed assets

	Freehold buildings £000	Land £000	Leasehold improvements £000	Office furniture fittings & equipment £000	Warehouse equipment £000	Computer equipment £000	Total £000
Cost							
At beginning of year	19,885	37,755	4,743	1,262	3,064	3,559	70,268
Additions	-	-	118	39	1,415	230	1,802
Disposals	-	-	(184)	(6)	(577)	(240)	(1,007)
At end of year	19,885	37,755	4,677	1,295	3,902	3,549	71,063
Depreciation							
At beginning of year	3,823	-	3,073	1,156	2,518	3,106	13,676
Charge for year	504	-	211	65	335	313	1,428
On disposals	-	-	(184)	(6)	(577)	(238)	(1,005)
At end of year	4,327	-	3,100	1,215	2,276	3,181	14,099
Net book value							
At 31 December 2019	15,558	37,755	1,577	80	1,626	368	56,964
At 31 December 2018	16,062	37,755	1,670	106	546	453	56,592

11 Debtors

	2019 £000	2018 £000
Trade debtors	32,105	33,314
Amounts owed by parent and fellow subsidiary undertakings	3,712	4,534
Other debtors	1,462	2,813
Prepayments and accrued income	653	957
Deferred Tax (Note 15)	908	517
Deferred Costs	1,262	1,559
	40,102	43,694

Notes (continued)

12 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	30,008	33,506
Amounts owed to parent and fellow subsidiary undertakings	2,127	1,715
Taxation and social security	1,871	865
Other creditors	1,919	2,043
Accruals	2,372	3,030
Deferred Revenue	1,754	2,029
	<u>40,051</u>	<u>43,188</u>

13 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Amount owed to group undertaking	<u>47,059</u>	<u>48,221</u>

Interest is payable at LIBOR +1%.

The loan is denominated in USD and is repayable on demand. However, prior to 31 December 2019, the directors agreed with their parent undertaking that it would not seek repayment of the loan during the period to the 31 December 2021, so long as the company maintains an interest in the property for which the loan was made and thus the loan is classified as due after more than one year.

14 Provisions for liabilities

	Repair obligation £000	Total £000
At beginning of the year	2,430	2,430
Additions / Movements	(24)	(24)
At end of the year	<u>2,406</u>	<u>2,406</u>

The company has various property leases which require the company to return the property to the landlord at the end of the tenancy in a specified condition. The above provision is recognised as the estimated cost of returning these premises to the condition specified in the leases. The cash outflows are expected in 2021 – 2032.

Notes (continued)

15 Deferred tax

The elements of deferred taxation are as follows:

	2019 £000	2018 £000
Difference between accumulated depreciation and capital allowances	(363)	(609)
Estimated future deduction for share based payments	1,181	1,055
Other timing differences	90	121
	<u>908</u>	<u>517</u>
Deferred tax asset / (liability)		
	<u>908</u>	<u>517</u>
	2019 £000	2018 £000
At the start of the year	517	(15)
Deferred tax charge in the profit and loss account	391	532
	<u>908</u>	<u>517</u>

Deferred tax has been calculated at 19% being the rate substantively enacted at the balance sheet date.

16 Called up share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
6,600 Ordinary shares of £1 each	7	7
	<u>7</u>	<u>7</u>

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	1,647	1,599
Between one and five years	4,929	5,617
More than five years	3,958	5,155
	<u>10,534</u>	<u>12,371</u>

18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £1,130,000 (2018: £951,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

19 Share based payments

Employees of the company receive stock options and restricted stock units under stock plans of Expeditors International of Washington, Inc. the sole shareholder of the company. At 31 December 2019, Expeditors International of Washington, Inc. has one stock plan (the "2017 Omnibus Incentive Plan") for employees under which its Board of Directors may grant officers and key employees share awards. Under the stock option plans, outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. The company does not incur any obligation as a result of the grant of stock options by Expeditors International of Washington, Inc. to its employees and does not issue any share nor any cash settlement upon exercise of the options by its employees.

Also, employees of the company may participate to Expeditors International of Washington, Inc.'s Employee Stock Purchase Plan ("2002 Plan"), which became effective 1 August 2002. The 2002 Plan provides for shares of Expeditors International of Washington, Inc.'s common stock to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning 1 August of each year. The purchase rights are exercisable on 31 July of the following year at a price equal to the lesser of (1) 85% of the fair market value of the company's stock on 31 July or (2) 85% of the fair market value of the company's stock on the preceding 1 August. The company does not issue any share nor any cash settlement upon exercise of the purchase rights by its employees.

The fair value of services received in return for share based payments is measured by reference to an estimate of the fair value of options awarded under Expeditors International of Washington Inc.'s fixed stock option or employee stock purchase rights plans.

20 Events after the reporting period

Since the balance sheet date, economic activity in the UK has been severely restricted by the measures put in place by the UK Government to control the spread of COVID-19 but, as described in note 1, the directors do not expect there to be any impact from COVID-19 on the ability of the company to continue operating as a going concern for the foreseeable future.

21 Ultimate holding company

The company is a subsidiary undertaking of Expeditors International of Washington Incorporated, incorporated in the state of Washington, United States of America, which is also the company's ultimate controlling party.

The only group in which the results of the company are consolidated is that headed by Expeditors International of Washington Incorporated. The consolidated financial statements are available to the public and may be obtained from:

Expeditors International of Washington Incorporated
1015 Third Avenue
12th Floor
Seattle, WA 98104
United States of America