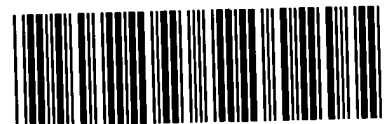


Registered number: 04228373

PHILLIPS AUCTIONEERS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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PHILLIPS AUCTIONEERS LIMITED

COMPANY INFORMATION

Directors	E Dolman P De Bono A Schwaer
Registered number	04228373
Registered office	30 Berkeley Square Berkeley Square London W1J 6EX
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2A 1AG

PHILLIPS AUCTIONEERS LIMITED

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PHILLIPS AUCTIONEERS LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Business review

In 2017 Phillips' overall Sales totals in the UK increased by 25% which outperformed the growth in the UK art market which expanded at a rate of 16% following a contraction in the prior year.

Despite the increase in Sales, the Company's turnover remained flat reflecting an increased competitiveness, especially around high value contemporary and modern works.

As a result, the increased gross profits for the year 2017, were not able to cover the increased fixed cost base, resulting in losses of £22.3m.

Principal risks and uncertainties

The Group's operating results and liquidity are significantly influenced by a number of key factors, some of which are not within its control. These factors, which are not ranked in any particular order, include:

Financial key performance indicators

The directors of Phillips Auctioneers Limited manage the Group's operations using the following financial KPIs:

Aggregate auction sales £107,170,767 (2016: £86,077,340).

Aggregate private treaty sale £10,968,240 (2016: £983,032).

Aggregate Auction Sales represent the Hammer Price of property sold at auction plus Buyer's Premium. The increase in Aggregate Auction Sales is due to more successful auctions, primarily the Contemporary Art evening auctions. This was further strengthened by the increase in private treaty sales driven by our new head of private sales team, who joined in 2017.

PHILLIPS AUCTIONEERS LIMITED

**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Employment policies

The Group to provide equal employment opportunity to all qualified individuals which ensures that all employment decisions are made, subject to its legal obligations, on a non discriminatory basis.

Due consideration is given to the recruitment, promotion, training and working environment of all staff including those with disabilities. It is Group policy to encourage the training and further development of all its employees where this is of benefit to the individual and the Group.

Employees have access through the relevant intranet to all Group policies and practices which form a part of the contract of employment. These policies and practices are updated on a regular basis to reflect changes in legislation and enhanced Group benefits.

This report was approved by the board on

and signed on its behalf.



A Schwaer
Director

PHILLIPS AUCTIONEERS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

Directors' responsibilities statement

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and apply them consistently for the Group's financial statements and then apply them consistently;
- make judgments 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 Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The group and company are principally engaged in contemporary art, design, watches and jewellery auctioneer and private sales, primarily through its London salesroom and gallery.

PHILLIPS AUCTIONEERS LIMITED

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

Results and dividends

The loss for the year, after taxation, amounted to £22,270 thousand (2016 - loss £12,529 thousand).

The financial statements have been prepared on the going concern basis. The ultimate parent company, Mercury PLC, has continued to provide financial support as required throughout the 2017 year end, and has confirmed to the directors their intention to continue to support the Group for a period of not less than 12 months from the date of these financial statements. The parent company Phillips Worldwide Limited has provided written confirmation that it will continue to provide financial support as required for a period of not less than 12 months from the date of these financial statements. This includes confirmation that Mercury PLC and the US sister Company, Phillips Auctioneers LLC, do not intend to request repayment of amounts included in creditors at the reporting date of £50,983,000 (2016: £27,635,000) for at least 12 months from the date of approval of the financial statements. Whilst there are no formal funding arrangements in place, the directors of Mercury PLC have indicated a willingness to provide funding to support the Group if required. The financial statements do not include any adjustments that would result if this support were to be withdrawn, the Group remains reliant on the continued support of the ultimate parent company, therefore this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Under the assumption that this support will continue as confirmed by Phillips Worldwide Limited, the directors have a reasonable expectation that the company and Group have adequate resources to meet the current liabilities of the business as they fall due. For this reason the directors believe the going concern assumption remains appropriate.

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were:

E Dolman
P De Bono
A Schwaer
F Lasry (resigned 2 October 2017)

Future developments

The directors of Phillips Auctioneers Limited will continue to grow its sales and keep the costs at a stable level.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Group since the year end.

PHILLIPS AUCTIONEERS LIMITED

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

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

and signed on its behalf.



A Schwaer
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHILLIPS AUCTIONEERS LIMITED

Opinion

We have audited the financial statements of Phillips Auctioneers Limited (the 'Group') for the year ended 31 December 2017, which comprise the consolidated statement of comprehensive income, the consolidated and Company Statement of financial positions, the consolidated and company statements of changes in equity and the consolidated Statement of cash flows and the related notes, 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 Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, 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.

Material uncertainty related to going concern

In forming our opinion in the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.2 to the financial statements concerning the Group's ability to continue as a going concern. As described in note 2.2, the Group remains reliant on the continued support of the ultimate parent company. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Who we are reporting to

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.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHILLIPS AUCTIONEERS LIMITED
(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 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 the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report by the Companies Act 2006

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 the directors' report.

Matters on which we are required to report by exception

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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 3, 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 Group's and the parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHILLIPS AUCTIONEERS LIMITED
(CONTINUED)**

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Grant Thornton UK LLP

Philip Westerman
Senior statutory auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 26 SEPTEMBER 2018

PHILLIPS AUCTIONEERS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000	2016 £000
Turnover	4	22,720	22,845
Cost of sales		(10,202)	(13,168)
Gross profit		<u>12,518</u>	<u>9,677</u>
Administrative expenses		(33,939)	(22,011)
Operating loss	5	(21,421)	(12,334)
Interest payable and expenses	8	(849)	(195)
Loss before taxation		<u>(22,270)</u>	<u>(12,529)</u>
Tax on loss	9	-	-
Loss for the financial year		<u><u>(22,270)</u></u>	<u><u>(12,529)</u></u>
 Total comprehensive income for the year		 <u><u>(22,270)</u></u>	 <u><u>(12,529)</u></u>

There were no recognised gains and losses for 2017 or 2016 other than those included in the consolidated statement of comprehensive income.

The notes on pages 15 to 28 form part of these financial statements.

PHILLIPS AUCTIONEERS LIMITED
REGISTERED NUMBER:04228373

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	11	2,511	2,818
		<u>2,511</u>	<u>2,818</u>
Current assets			
Stocks	13	3,935	3,915
Debtors: amounts falling due after more than one year	14	286	-
Debtors: amounts falling due within one year	14	26,599	19,541
Cash at bank and in hand	15	3,658	3,722
		<u>34,478</u>	<u>27,178</u>
Creditors: amounts falling due within one year	16	(68,914)	(42,597)
Net current liabilities		<u>(34,436)</u>	<u>(15,419)</u>
Total assets less current liabilities		<u>(31,925)</u>	<u>(12,601)</u>
Creditors: amounts falling due after more than one year	17	(2,946)	-
Provisions for liabilities			
Net assets excluding pension asset		<u>(34,871)</u>	<u>(12,601)</u>
Net liabilities		<u>(34,871)</u>	<u>(12,601)</u>
Capital and reserves			
Called up share capital	19	63,636	63,636
Capital contribution reserve	20	83,310	83,310
Profit and loss account	20	(181,817)	(159,547)
Equity attributable to owners of the parent Company		<u>(34,871)</u>	<u>(12,601)</u>
		<u>(34,871)</u>	<u>(12,601)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



A Schwaer
Director
Date:

The notes on pages 15 to 28 form part of these financial statements.

PHILLIPS AUCTIONEERS LIMITED
REGISTERED NUMBER:04228373

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	11	2,511	2,818
		<u>2,511</u>	<u>2,818</u>
Current assets			
Stocks	13	3,935	3,915
Debtors: amounts falling due after more than one year	14	257	-
Debtors: amounts falling due within one year	14	26,555	19,494
Cash at bank and in hand	15	3,656	3,721
		<u>34,403</u>	<u>27,130</u>
Creditors: amounts falling due within one year	16	(68,608)	(42,328)
Net current liabilities		<u>(34,205)</u>	<u>(15,198)</u>
Total assets less current liabilities		<u>(31,694)</u>	<u>(12,380)</u>
Creditors: amounts falling due after more than one year	17	(2,946)	-
Net liabilities		<u>(34,640)</u>	<u>(12,380)</u>
Capital and reserves			
Called up share capital	19	63,636	63,636
Capital contribution reserve	20	83,310	83,310
Profit and loss account	20	(181,586)	(159,326)
		<u>(34,640)</u>	<u>(12,380)</u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The loss after tax of the parent Company for the year was £22,200 thousand (2016 - loss £12,545 thousand).

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



A Schwaer
Director
Date:

The notes on pages 15 to 28 form part of these financial statements.

PHILLIPS AUCTIONEERS LIMITED

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

	Called up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Equity attributable to owners of parent Company £000	Total equity £000
At 1 January 2017	63,636	83,310	(159,547)	(12,601)	(12,601)
Comprehensive income for the year					
Loss for the year	-	-	(22,270)	(22,270)	(22,270)
Total comprehensive income for the year	-	-	(22,270)	(22,270)	(22,270)
At 31 December 2017	63,636	83,310	(181,817)	(34,871)	(34,871)

The notes on pages 15 to 28 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Equity attributable to owners of parent Company £000	Total equity £000
At 1 January 2016	63,636	83,310	(147,018)	(72)	(72)
Comprehensive income for the year					
Loss for the year	-	-	(12,529)	(12,529)	(12,529)
Total comprehensive income for the year	-	-	(12,529)	(12,529)	(12,529)
At 31 December 2016	63,636	83,310	(159,547)	(12,601)	(12,601)

PHILLIPS AUCTIONEERS LIMITED

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

	Called up share capital	Capital contribution reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2016	63,636	83,310	(159,326)	(12,380)
Comprehensive income for the year				
Loss for the year	-	-	(22,260)	(22,260)
At 31 December 2017	63,636	83,310	(181,586)	(34,640)

The notes on pages 15 to 28 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital	Capital contribution reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2016	63,636	83,310	(146,781)	165
Comprehensive income for the year				
Loss for the year	-	-	(12,545)	(12,545)
Total comprehensive income for the year	-	-	(12,545)	(12,545)
At 31 December 2016	63,636	83,310	(159,326)	(12,380)

The notes on pages 15 to 28 form part of these financial statements.

PHILLIPS AUCTIONEERS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Loss for the financial year	(22,270)	(12,529)
Adjustments for:		
Depreciation of tangible assets	591	519
(Increase)/decrease in stocks	(20)	706
(Increase) in debtors	(7,057)	(4,787)
Increase/(decrease) in amounts owed to groups	23,348	(13,421)
Increase in creditors	5,913	4,581
Net cash generated from operating activities	505	(24,931)
Cash flows from investing activities		
Purchase of tangible fixed assets	(285)	(1,208)
Sale of tangible fixed assets	-	15
Net cash from investing activities	(285)	(1,193)
Cash flows from financing activities		
New loans from group companies	-	25,252
Interest paid	(284)	-
Net cash used in financing activities	(284)	25,252
Net (decrease) in cash and cash equivalents	(64)	(872)
Cash and cash equivalents at beginning of year	3,722	4,594
Cash and cash equivalents at the end of year	3,658	3,722
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	3,658	3,722
	3,658	3,722

The notes on pages 15 to 28 form part of these financial statements.

PHILLIPS AUCTIONEERS LIMITED

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

1. General information

Phillips Auctioneers Limited is a private limited group, limited by shares and is incorporated in England. The registered office is 30 Berkeley Square, Berkeley Square, London, W1J 6EX.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements.

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on the going concern basis. The ultimate parent company, Mercury PLC, has continued to provide financial support as required throughout the 2017 year end, and has confirmed to the directors their intention to continue to support the Group for a period of not less than 12 months from the date of these financial statements. The parent company Phillips Worldwide Limited has provided written confirmation that it will continue to provide financial support as required for a period of not less than 12 months from the date of these financial statements. This includes confirmation that Mercury PLC and the US sister Company, Phillips Auctioneers LLC, do not intend to request repayment of amounts included in creditors at the reporting date of £50,983,000 (2016: £27,635,000) for at least 12 months from the date of approval of the financial statements. Whilst there are no formal funding arrangements in place, the directors of Mercury PLC have indicated a willingness to provide funding to support the Group if required. The financial statements do not include any adjustments that would result if this support were to be withdrawn, the Group remains reliant on the continued support of the ultimate parent company, therefore this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Under the assumption that this support will continue as confirmed by Phillips Worldwide Limited, the directors have a reasonable expectation that the company and Group have adequate resources to meet the current liabilities of the business as they fall due. For this reason the directors believe the going concern assumption remains appropriate.

PHILLIPS AUCTIONEERS LIMITED

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

2. Accounting policies (continued)

2.3 Basis of consolidation

The financial statements consolidate the accounts of Phillips Auctioneers Limited and all of its subsidiary undertakings ('subsidiaries'). The entity has taken exemption from presenting its own profit and loss account under section 408 of Companies Act 2006.

Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.4 Revenue

Turnover is derived from the principal activity of the Group and is recognised on the date of the auction. If a purchaser defaults on payment, the Group, in accordance with its standard terms and conditions, has a right to cancel the sale and return the property to the owner, re offer the property at a future auction or negotiate a private sale. Turnover is stated net of sales taxes.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5 Tangible fixed assets

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

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

PHILLIPS AUCTIONEERS LIMITED

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

2. Accounting policies (continued)

2.5 Tangible fixed assets (continued)

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

The estimated useful lives range as follows:

Leasehold improvements	- Over the shorter of the lease term and 40 years
Motor vehicles	- 10% straight line
Fixtures & fittings	- 10% straight line
Office equipment	- 25% straight line
Computer equipment	- 25% straight line
Computer software	- 50% straight line

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Consolidated statement of comprehensive income.

2.6 Operating leases

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

2.7 Stocks

Stocks are valued at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items. In determining the estimated realisable value of artworks held in inventory, management relies on the opinions of the Group's specialists, who consider the following complex array of factors when valuing artworks:

PHILLIPS AUCTIONEERS LIMITED

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

2. Accounting policies (continued)

2.8 Taxation and deferred taxation

Tax is recognised in the Consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

2.9 Foreign currency translation

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the Consolidated statement of comprehensive income. Non monetary items that are measured at historical cost in a foreign currency are not retranslated.

The balance sheets of overseas branches and subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statement of overseas subsidiaries are translated at the average rate of exchange for the financial year. Any exchange gains and losses arising on the retranslation of opening net assets and arising as a result of differences between average and closing year and exchange rates are shown in the Consolidated statement of comprehensive income.

2.10 Pensions

The group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the group to the fund in respect of the year.

PHILLIPS AUCTIONEERS LIMITED

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

2. Accounting policies (continued)

2.11 Financial instruments

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

2.12 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.13 Cash and cash equivalents

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

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

PHILLIPS AUCTIONEERS LIMITED

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

2. Accounting policies (continued)

2.14 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.15 Finance costs

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

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

Material judgements and estimates made by the directors in relation to a) going concern and b) stock valuation and provisioning are discussed at 2.2 and 2.7 respectively. There are no other material judgements or estimates applied in the preparation of these financial statements

4. Turnover

The whole of the turnover is attributable to the one principal business activity of the Group. The principal activity is to consult and sale contemporary art, design, watches and jewellery at auction and or through private sales. All sales are made through the UK auction house.

5. Operating loss

The operating loss is stated after charging:

	2017	2016
	£000	£000
Depreciation of tangible fixed assets	592	516
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	38	35
- The audit of the Group's subsidiaries pursuant to legislation	9	10
Other operating lease rentals	3,793	3,200
Difference on foreign exchange	1,680	(3,152)

PHILLIPS AUCTIONEERS LIMITED

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

6. Employees

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Wages and salaries	16,628	12,408	16,380	11,908
Social security costs	1,825	1,378	1,814	1,360
Cost of defined benefit scheme	250	218	168	182
	<u>18,703</u>	<u>14,004</u>	<u>18,362</u>	<u>13,450</u>

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

	2017 No.	2016 No.
Auctioneer, valuer, specialists and administration	<u>154</u>	<u>137</u>

7. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	111	403
Company contributions to defined contribution pension schemes	4	23
	<u>115</u>	<u>426</u>

During the year retirement benefits were accruing to 2 directors (2016 - 2) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £110,667 (2016 - £311,500).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,905 (2016 - £18,000).

8. Interest payable and similar expenses

	2017 £000	2016 £000
Loans from group undertakings	<u>849</u>	<u>195</u>

PHILLIPS AUCTIONEERS LIMITED

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

9. Taxation

	2017 £000	2016 £000
Taxation on profit on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.0%). The differences are explained below:

	2017 £000	2016 £000
Loss on ordinary activities before tax	<u>(22,270)</u>	<u>(12,529)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.0%)	(4,287)	(2,506)
Effects of:		
Expenses not deductible for tax purposes	43	64
Capital allowances for year in excess of depreciation	78	72
Increase tax losses	4,161	2,370
Other timing differences	2	-
Unrelieved foreign tax	3	-
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

No deferred tax asset has been recognised in respect of surplus tax losses available for carry forward due to uncertainty over the timing of future taxable profits. There are potential gross losses available carry forward of approximately £122,440,000 (2016: £100,807,000).

10. Parent Company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The loss after tax of the parent Company for the year was £22,260 thousand (2016 - *loss* £12,545 thousand).

PHILLIPS AUCTIONEERS LIMITED

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

11. Tangible fixed assets

Group

	L/Term Leasehold Property £000	Motor vehicles £000	Fixtures & fittings £000	Office equipment £000	Total £000
Cost or valuation					
At 1 January 2017	2,321	225	710	1,557	4,813
Additions	52	35	-	198	285
At 31 December 2017	<u>2,373</u>	<u>260</u>	<u>710</u>	<u>1,755</u>	<u>5,098</u>
Depreciation					
At 1 January 2017	687	114	231	963	1,995
Charge for the year on owned assets	164	26	94	308	592
At 31 December 2017	<u>851</u>	<u>140</u>	<u>325</u>	<u>1,271</u>	<u>2,587</u>
Net book value					
At 31 December 2017	<u>1,522</u>	<u>120</u>	<u>385</u>	<u>484</u>	<u>2,511</u>
At 31 December 2016	<u>1,634</u>	<u>111</u>	<u>479</u>	<u>594</u>	<u>2,818</u>

PHILLIPS AUCTIONEERS LIMITED

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

11. Tangible fixed assets (continued)

Company

	L/Term Leasehold Property £000	Motor vehicles £000	Fixtures & fittings £000	Office equipment £000	Total £000
Cost or valuation					
At 1 January 2017	2,321	225	710	1,557	4,813
Additions	52	35	-	198	285
At 31 December 2017	<u>2,373</u>	<u>260</u>	<u>710</u>	<u>1,755</u>	<u>5,098</u>
Depreciation					
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Charge for the year on owned assets	164	26	94	308	592
At 31 December 2017	<u>851</u>	<u>140</u>	<u>325</u>	<u>1,271</u>	<u>2,587</u>
Net book value					
At 31 December 2017	<u>1,522</u>	<u>120</u>	<u>385</u>	<u>484</u>	<u>2,511</u>
At 31 December 2016	<u>1,634</u>	<u>111</u>	<u>479</u>	<u>594</u>	<u>2,818</u>

12. Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country	Holding	Description
Phillips Auctioneers SARL	France	100	Art consultants

PHILLIPS AUCTIONEERS LIMITED

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

13. Stocks

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Goods for resale	<u>3,935</u>	<u>3,915</u>	<u>3,935</u>	<u>3,915</u>

14. Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due after more than one year				
Other debtors	286	-	257	-
	<u>286</u>	<u>-</u>	<u>257</u>	<u>-</u>

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due within one year				
Trade debtors	18,474	14,702	18,474	14,702
Other debtors	6,385	3,204	6,361	3,177
Prepayments and accrued income	1,740	1,635	1,720	1,615
	<u>26,599</u>	<u>19,541</u>	<u>26,555</u>	<u>19,494</u>

Held within other debtors is £1.93m (2016: £2.7m) owed by the Chairwoman Cheyenne Westphal.

15. Cash and cash equivalents

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Cash at bank and in hand	3,658	3,722	3,656	3,721
	<u>3,658</u>	<u>3,722</u>	<u>3,656</u>	<u>3,721</u>

Held within Cash is £2.242m (2016: £2.561m) of restricted cash.

PHILLIPS AUCTIONEERS LIMITED

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

16. Creditors: Amounts falling due within one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade creditors	13,147	10,060	13,147	10,060
Amounts owed to group undertakings	50,983	27,635	50,764	27,386
Other creditors	4,784	4,902	4,697	4,882
	<u>68,914</u>	<u>42,597</u>	<u>68,608</u>	<u>42,328</u>

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Other creditors	2,946	-	2,946	-
	<u>2,946</u>	<u>-</u>	<u>2,946</u>	<u>-</u>

Please provide details of the terms of payment or repayment and the rates of any interest payable on the amounts repayable more than five years after the balance sheet date.

18. Financial instruments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Financial assets				
Financial assets measured at fair value through profit or loss	3,658	3,722	3,656	3,721,000
Financial assets that are debt instruments measured at amortised cost	25,145	17,907	25,092	17,879,000
Financial assets that are equity instruments measured at cost less impairment	-	-	-	-
	<u>28,803</u>	<u>21,629</u>	<u>28,748</u>	<u>21,600,000</u>
Financial liabilities				
Financial liabilities measured at amortised cost	(71,857)	(42,597,000)	(71,553)	(42,328,000)
	<u>(71,857)</u>	<u>(42,597,000)</u>	<u>(71,553)</u>	<u>(42,328,000)</u>

Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio comprise....

PHILLIPS AUCTIONEERS LIMITED

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

19. Share capital

	2017 £000	2016 £000
Authorised		
75,000,000 Ordinary shares of £1 each	<u>75,000</u>	<u>75,000</u>
Allotted, called up and fully paid		
63,636,355 Ordinary shares of £1 each	<u>63,636</u>	<u>63,636</u>

20. Reserves

Other reserves

Capital contribution reserve represents a converted intercompany loan to Phillips UK into equity.

Profit & loss account

Includes all current and prior period retained profit and losses.

21. Pension commitments

The group pays into defined contribution pension schemes. The assets of these schemes are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to these funds and amounted to £249,500 (2016: £218,000).

22. Commitments under operating leases

At 31 December 2017 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Not later than 1 year	3,973	3,581	3,973	3,581
Later than 1 year and not later than 5 years	15,893	14,324	15,893	14,324
Later than 5 years	21,990	27,736	21,990	27,736
	<u>41,856</u>	<u>45,641</u>	<u>41,856</u>	<u>45,641</u>

PHILLIPS AUCTIONEERS LIMITED

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

23. Related party transactions

During the year, fellow subsidiaries of the Mercury Group purchased works at open auction on which the Group earned buyer's premium of £983,000 (2016: £1,363,500). Of this amount, £799,000 (2016: £1,232,000) related to items under guarantee and £139,000 (2016: £nil) remained outstanding at year end. A further amount of £5,156,671 (2016: £nil) is owed relating to unpaid balances held in debtors (Note 14) relating to amounts owed for hammer price, artists rights commissions and reimbursements.

During the year, fellow subsidiaries of the Mercury Group also consigned works with the Group, which sold at auction and earned the Group buyer's premium of £804,175 (2016: £126,500). Held within trade creditors (Note 16) is an amount owed for £4,793,000 (2016: £680,500).

During the year the Group drew down on a loan facility held with a fellow subsidiary of the Ultimate Parent Company, which incurred interest charges of £880,680 in the year (2016: £195,000), and led to an outstanding amount owed to Mercury Trading Limited of £26,452,906 (2016: £25,260,300).

The property is leased from a fellow subsidiary of the Ultimate Parent Company, which led to a cost incurred in the year of £3,878,431 (2016: £3,423,000), there were no balances outstanding at the year end.

All transactions were on an arm's length basis. The directors have taken advantage of the FRS 102 exemption from disclosure of certain intra group transactions.

24. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking, by virtue of their majority shareholding, is Phillips Worldwide Limited a company incorporated and registered in the Seychelles. The Ultimate parent company is Mercury PLC, a company incorporated and registered in the Seychelles.