

# **Zebra Technologies Europe Limited**

Registered No. 02881068

## **Annual Report and Financial Statements**

for the year ended 31 December 2019



## **Corporate Information**

### **Directors**

### **Secretary**

Pitsec Limited

### **Auditors**

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire  
RG1 1YE

### **Registered Office**

Dukes Meadow  
Millboard Road  
Bourne End  
Buckinghamshire  
SL8 5XF

## Strategic report

The directors present their strategic report for the year ended 31 December 2019.

### Principal activity and review of the business

The principal activity of the company comprises the sale and distribution of a broad line of bar-code label and receipt printers and card printers, self-adhesive labelling materials, card supplies, thermal transfer ribbons and bar-code label design software, design, manufacture and selling of rugged and enterprise-grade mobile computing products in a variety of specialised forms and features for specific enterprise applications. These products are used principally in automatic identification (auto ID), data collection and personal identification applications and are distributed through a network of resellers, distributors and end users representing a wide cross-section of industrial, service and government organisations.

The company has a wide product portfolio across a number of vertical market segments, which it sells through established partners covering a large geographical area.

The company's immediate parent undertaking is Zebra Jersey Holdings II Limited and ultimate parent undertaking is Zebra Technologies Corporation.

The company's key financial performance indicators during the year were:

- a) Company turnover has increased from \$1,394,934,000 to \$1,421,544,000. This is mainly due to year on year organic sales growth.
- b) Company profit before tax has increased from \$348,968,000 to \$383,415,000.
- c) Company made an exchange loss of \$1,792,000 in 2019 as compared to a loss of \$4,819,000 in 2018. Company also made a gain on forward foreign currency contracts of \$41,856,000 in 2019 as compared to a gain of \$12,488,000 in 2018. This is mainly due to the exchange movements between USD and EUR.

Management are optimistic about the long-term prospects of the business.

### Section 172 statement

#### General confirmation of Directors' duties

When making decisions, each Director ensures that he/she acts in the way he/she considers, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard to:

#### Our People

The Directors recognise that Zebra employees are fundamental and core to our business and delivery of our strategic ambitions. The success of our business depends on attracting, retaining and motivating employees. Key communication channels generally include entity-wide townhall meetings and annual employee feedback surveys. Some of the key programs that we have invested in and made available for our employees include

- Learning & Development
  - Zebra provides a continuous learning platform that connects thousands of resources for individualized learning and serves as Zebra's aggregated source for learning
- Rewards & Recognition
  - GEM Platform which fosters a culture of more frequent, spontaneous recognitions that is aligned with Zebra's values and strategic priorities
- Culture
  - Programmes which are designed to empower employees to fully realise their strengths and understand and appreciate the strengths of others

## Strategic report (continued)

### Our Customer, Suppliers and others

The Directors understand the business and the evolving environment in which we operate. ZTEL is an industry leader in providing hardware and solutions that deliver a performance edge to those on the front line of businesses in healthcare, transportation and logistics, hospitality, retail, manufacturing and sports. Our impressive portfolio features technologies in barcode printing, mobile computing, data capture, locationing, data platforms, software, services and supplies. The strategy set by the Board is intended to strengthen our position as a leading supplier of these products, services and solutions by growing relationships with our key partners in a sustainable and equitable manner.

This means that delivering our strategy requires identifying and cultivating mutually beneficial relationships with suppliers, customers and other identified key stakeholders. We have a Code of Conduct policy which outlines employees code of conduct in dealing with both our external and internal stakeholders.

### Community and the Environment

Zebra understands its impact and role in the community and the environment and has undertaken numerous initiatives such as

- Volunteer Community service days : Employees are entitled to a certain number of volunteer days annually.
- Donation for Doers, where employees can request a \$ donation for volunteering that they do outside of working hours.
- Employees support Spotlight on Careers in collaboration with the Education Business Partnership

### Investors

As a wholly owned subsidiary the directors engage with its parent company on various matters including delivery of group strategy, funding, governance, compliance, policies and delivery of the groups services. Zebra is also a holding company for various branches and subsidiaries across the EMEA region and takes into account these entities when strategizing both short term and long term initiatives.

During the COVID-19 pandemic which was announced in March 2020 Zebra has implemented a range of temporary social measures such as remote working to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard.

### Principal risks and uncertainties

Discussed below are the company's principal business risks, together with initiatives in place to address them:

#### Covid19

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. A range of temporary social measures such as remote working have been taken to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard. The directors have prepared a detailed sensitivity analysis of the COVID-19 impact on revenue, profitability and cash flow for 2020 and the going concern period, being 12 months from the date of approval of the financial statements. These models analysed the impact of the Pandemic and covered the companies probable and worst-case scenarios. Both of these scenarios looked at the impact due to the lower demand for the company's products and services and government enforced lockdowns impacting supply chain. The company expects to make a profit after tax during 2020 under both scenarios. The company may seek to utilize UK Government support to minimize the impact on operating profits and working capital needs. There is the potential should global macro-economic weakness persist and customers enter financial difficulty, the company may be exposed to higher risk of asset impairments in the future.

## Strategic report (continued)

### **Brexit**

Brexit has created some uncertainties across all the businesses in the UK. The company's management has been monitoring the changes Brexit may cause and due to the uncertainty has evaluated various scenarios that may impact the company and its employees. These scenarios included anticipating changes to the operations and supply chain and based on the current state, these are not considered to be significant for the company. The company also evaluated the impact of Brexit on the employees and based on the current Brexit state it does not anticipate any material impact on the current and future employees.

### **Market risk**

There is competitive risk within the market. The company trades with a large number of customers across a range of vertical and geographical markets which helps mitigate market risk.

### **Operational risk**

This relates to the risk of financial loss resulting from internal processes, people and systems. The company manages this risk through appropriate internal controls, continuous process improvement and management review.

### **Liquidity risk**

This relates to the risk that the company is unable to fund its requirements because of insufficient banking facilities. The company monitors its cash flow on a weekly basis and prepares detailed cash flow forecasts.


### **Foreign currency risk**

Exposures to foreign currency exchange rate movements are monitored periodically by the Board of Directors (the "Board") and the treasury department of Zebra Technologies Corporation (the "ultimate parent undertaking"). The company uses forward foreign currency contracts to reduce exchange rate exposure on a proportion of future forecasted turnover.

### **Credit risk**

This relates to the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The company has a strong credit control function to ensure deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

On behalf of the Board



Miguel Lopez Rosas  
Director  
30 June 2020

## Director's report

The directors present their report for the year ended 31 December 2019.

### Directors of the company

The directors who served the company during the year and to the date of this report are disclosed on page 1.

### Dividends

A dividend of \$296,000,000 was paid to Zebra Jersey Holdings II Limited during the year ended 31 December 2019 (2018 - \$117,000,000).

A dividend of \$3,945,000 was received during the year from subsidiary undertakings (2018 - \$2,131,000).

### Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years. They consider the next year will show growth in sales from continuing operations.

### Going concern

The company has generated profits in the current and previous years. It is in a net current assets and net assets position as at 31 December 2019 and 31 December 2018. The company does not have any external third-party debt.

As highlighted in the Strategic Report, COVID-19 is expected to result in a decline in revenue, operating profits and cash-flow for a short but undefined period. A range of temporary social measures such as remote working have been taken to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard. The company has and continues to assess its working capital position and currently has adequate facilities and resources to support the business. The directors have prepared cash flow forecasts for the company for a review period of twelve months from the date of approval of the 2019 financial statements. These forecasts reflect an assessment of current and future market conditions due to the lower demand for the company's products and services and government enforced lockdowns impacting supply chain and their impact on the company's future cash flow performance. The forecasts have been sensitised for a reduction in revenue through to June 2021. The forecasts have also been reverse stress tested by significantly reducing revenue to the end of the review period.

In both the sensitised and reverse stress tested scenarios the forecasts indicate the company would still have sufficient cash and existing facilities to continue. Whilst the directors do not deem it necessary, should it be required, additional facilities are available to the company which are part of the wider Zebra Technologies group and as such, the ultimate parent undertaking, Zebra Technologies Incorporated, has confirmed in writing that it will further support the Company as needed to provide access to Zebra Technologies group facilities so that the company can continue trading and enable it to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

## Director's report (continued)

### Subsequent events

#### Impact of the Coronavirus (COVID-19) outbreak

As indicated in the Strategic Report, subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. A range of temporary social measures such as remote working have been taken to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard.

The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report however they will have an impact on our fiscal year 2020 earnings, cash flow and financial condition. The directors have prepared a detailed sensitivity analysis of the COVID-19 impact on revenue, profitability and cash flow for 2020 and the going concern period, being 12 months from the date of approval of the financial statements. These models analysed the impact of the Pandemic and covered the companies probable and worst-case scenarios. Both of these scenarios looked at the impact due to the lower demand for the company's products and services and government enforced lockdowns impacting supply chain. The company expects to make a profit after tax during 2020 under both scenarios

In order to minimise the impact on operating profit, the directors may utilise the financial support schemes, such as the furlough of staff, offered by the UK Government. To preserve working capital, the company has deferred the payment of certain taxes in agreement with HMRC.

There is the potential should global macro-economic weakness persist and customers enter financial difficulty, the company may be exposed to higher risk of asset impairments in the future.

There are no other subsequent events that impact the company for the year ended 31 December 2019.

#### Branches

The company operates branches in Romania, Saudi Arabia and United Arab Emirates.

## Director's report (continued)

### Subsidiaries

Zebra Technologies BV (ZTBV) is incorporated and registered in the Netherlands and provides logistic, repair and manufacturing services to other group companies.

Zebra Technologies AB (ZTAB) is incorporated and registered in Sweden and provides business development and related marketing services to other group companies.

Zebra Technologies Sp. z.o.o. (ZT Sp. z.o.o.) is incorporated and registered in Poland and provides business development and marketing services to other group companies.

Cortexica Vision Systems Limited (CVSL) is incorporated and registered in the United Kingdom and provides B2B computer vision-based Artificial Intelligence solutions.

### Financial risk management

The company's exposure and financial risk management is outlined in the strategic report, as shown on pages 2 to 4.

### Disabled employees

The company gives full consideration to applications for employment from disabled persons, where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the role. Opportunities are available to disabled employees for training, career development and promotion.

### Employee involvement

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through regular information bulletins and communication meetings which seek to achieve a common awareness of the financial and economic factors affecting the performance of the business. Management listen to its employees in a variety of ways, including through regular employee survey, enabling employees to raise issues regarding their working environment. Management also have in place an independent whistleblowing facility for employees to raise concerns, without fear of adverse consequence. Stock awards in the company's ultimate parent undertaking, Zebra Technologies Corporation are granted to certain employees of the company. The stock awards are granted to encourage employees' participation in the company's performance. For further details regarding stock awards, refer to note 23.

### Directors' liabilities

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

### Strategic report

In accordance with Section 414C(11) of the Companies Act 2006, the following information has been included in the company's strategic report which would otherwise be required by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' to be contained in the Directors' report:

- Exposure of the company to risk in relation to the use of financial instruments



## Director's report (continued)

### Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information (that is, information needed by the company's auditor in connection with preparing their report) of which the company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable UK 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), including FRS 101 'Reduced Disclosure Framework' (FRS 101). 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Miguel Lopez Rosas  
Director  
30 June 2020

# Independent Auditor's Report

To the members of Zebra Technologies Europe Limited

## Opinion

We have audited the financial statements of Zebra Technologies Europe Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of changes in equity, the Balance Sheet and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Emphasis of matter – Effects of COVID-19

We draw attention to note 2.1 and 29 of the financial statements, which describes the economic impact the company is facing as a result of COVID-19 which is impacting supply chain, consumer demand and personnel available for work and/or being able to access offices. Our opinion is not modified in respect of this matter.

## 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.

## **Independent Auditor's Report (continued)**

### **Other information**

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 8, 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.

## Independent Auditor's Report (continued)

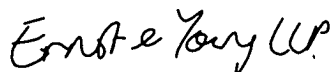
### Auditor's responsibilities for the audit of the financial statements

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

### Use of our report

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



Joe Yglesia (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

1 July 2020

## Income statement

for the year ended 31 December 2019

		2019	2018
	Notes	\$'000	\$'000
<b>Revenue</b>	3	1,421,544	1,394,934
Cost of sales	4	(791,626)	(741,269)
<b>Gross profit</b>		629,918	653,665
Administrative expenses	4	(246,175)	(244,483)
Amortisation of intangible assets	4	(55,990)	(59,389)
<b>Operating profit</b>		327,753	349,793
Forward foreign currency contract gain	24	41,856	12,488
Interest receivable and other income	8	9,938	4,348
Interest payable and similar charges	9	(77)	(19,792)
Dividend received	11	3,945	2,131
<b>Profit on ordinary activities before taxation</b>		383,415	348,968
Tax expense	10	(72,258)	(61,260)
<b>Profit for the financial year</b>		311,157	287,708

All amounts relate to continuing activities.

There are no other items of total comprehensive income other than the profit attributable to the shareholders of the company of \$311,157,000 in the year ended 31 December 2019 (2018 - profit of \$287,708,000).

## Statement of changes in equity

for the year ended 31 December 2019

	<i>Share capital</i>	<i>Share premium account</i>	<i>Retained earnings</i>	<i>Total Equity</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2019	7,818	573,991	296,645	878,454
Profit for the year	-	-	311,157	311,157
Dividend paid from retained earnings	-	-	(296,000)	(296,000)
Credit in relation to share related awards	-	-	1,792	1,792
Credit in relation to share based payments	-	-	436	436
At 31 December 2019	<u>7,818</u>	<u>573,991</u>	<u>314,030</u>	<u>895,839</u>

	<i>Share capital</i>	<i>Share premium account</i>	<i>(restated) Retained earnings</i>	<i>(restated) Total Equity</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2018	7,803	731	123,741	132,275
Profit for the year	-	-	287,708	287,708
Issue of share capital	15	573,260	-	573,275
Dividend paid from retained earnings	-	-	(117,000)	(117,000)
Credit in relation to share related awards	-	-	1,815	1,815
Credit in relation to share based payments	-	-	381	381
At 31 December 2018	<u>7,818</u>	<u>573,991</u>	<u>296,645</u>	<u>878,454</u>

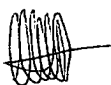
On 31 May 2018 and 28 August 2018, the company allotted and issued 9,000 and 2,131 ordinary shares of £1.00 each to Zebra Jersey II Limited, the company's sole member, for an aggregate subscription price of \$573,275,000 in cash. Please see note 20 and 21 for detail.

## Balance sheet

as at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
<b>Fixed assets</b>			
Intangible assets	12	725,824	781,814
Tangible assets	13	14,484	10,051
Investments	14	7,203	219
		<u>747,511</u>	<u>792,084</u>
<b>Current assets</b>			
Stocks	15	100,732	101,820
Debtors	16	561,738	410,573
Cash at bank and in hand		407	2,215
		<u>662,877</u>	<u>514,608</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(419,935)</u>	<u>(351,806)</u>
<b>Net current assets</b>		<u>242,942</u>	<u>162,802</u>
<b>Total assets less current liabilities</b>		990,453	954,886
<b>Creditors: amounts falling due after more than one year</b>	18	(88,677)	(70,005)
<b>Provisions for liabilities</b>	19	<u>(5,937)</u>	<u>(6,427)</u>
		<u>(94,614)</u>	<u>(76,432)</u>
<b>Net assets</b>		<u>895,839</u>	<u>878,454</u>
<b>Capital and reserves</b>			
Called up share capital	20	7,818	7,818
Share premium account	21	573,991	573,991
Retained earnings	21	314,030	296,645
<b>Shareholders' funds</b>		<u>895,839</u>	<u>878,454</u>

The financial statements of Zebra Technologies Europe Limited (registered number: 02881068) were approved by the Board of Directors and authorised for issue on 30 June 2020. They were signed on its behalf by:



Miguel Lopez Rosas  
Director  
30 June 2020

## Notes to the financial statements

for the year ended 31 December 2019

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Zebra Technologies Europe Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the Board on 30 June 2020 and the balance sheet was signed on the Board's behalf by Miguel Lopez Rosas. Zebra Technologies Europe Limited is a private limited by shares company and is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company has used a true and fair view override in respect of the non-amortisation of goodwill (see note 12).

The company's financial statements are presented in US Dollar (which is also the functional currency) and all values are rounded to the nearest thousand Dollars (\$'000) except when otherwise indicated.

The results of the company are included in the consolidated financial statements of Zebra Technologies Corporation which are available from 3 Overlook Point, Lincolnshire, Illinois, USA.

The principal accounting policies adopted by the company are set out in note 2.

### 2. Accounting policies

#### 2.1 Basis of preparation

The financial statements are prepared in accordance with the historical cost convention. The financial statements also comply with the applicable accounting standards and Companies Act 2006.

The company has generated profits in the current and previous years. It is in a net current assets and net assets position as at 31 December 2019 and 31 December 2018. The company does not have any external third-party debt.

As highlighted in the Strategic Report, COVID-19 is expected to result in a decline in revenue, operating profits and cash-flow for a short but undefined period. A range of temporary social measures such as remote working have been taken to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard. The company has and continues to assess its working capital position and currently has adequate facilities and resources to support the business. The directors have prepared cash flow forecasts for the company for a review period of twelve months from the date of approval of the 2019 financial statements. These forecasts reflect an assessment of current and future market conditions due to the lower demand for the company's products and services and government enforced lockdowns impacting supply chain and their impact on the company's future cash flow performance. The forecasts have been sensitised for a reduction in revenue through to June 2021. The forecasts have also been reverse stress tested by significantly reducing revenue to the end of the review period.

In both the sensitised and reverse stress tested scenarios the forecasts indicate the company would still have sufficient cash and existing facilities to continue. Whilst the directors do not deem it necessary, should it be required, additional facilities are available to the company which are part of the wider Zebra Technologies group and as such, the ultimate parent undertaking, Zebra Technologies Incorporated, has confirmed in writing that it will further support the Company as needed to provide access to Zebra Technologies group facilities so that the company can continue trading and enable it to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The company prepared these financial statements to provide comparative information in respect of the previous period. For these financial statements, the year ending 31 December 2019, the company has continued with the application of accounting standard IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. These accounting standards were applied for the year ending 31 December 2018 for the first time.

The company has also adopted the new accounting standard IFRS 16 *Leases* in the year ending 31 December 2019 for the first time. Adoption of IFRS 16 resulted in the recognition of right of use assets as per note 13 and lease liabilities as per note 17.



## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

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

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment, because:
  - (i) the share based payment arrangement concerns the instruments of another group entity;
- (b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- (c) the requirements of IFRS 7 Financial Instruments: Disclosures,
- (d) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- (e) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (f) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (g) the requirements of IAS 7 Statement of Cash Flows;
- (h) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (i) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (j) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (k) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

#### 2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Directors have concluded that any estimation uncertainty does not give rise to a significant risk of material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

##### **Taxation**

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 10.

##### **Revenue from contracts with customers**

For these financial statements, the year ending 31 December 2019, the company has applied the new accounting standard IFRS 15 *Revenue from Contracts with Customers* for the second time. Year ending 31 December 2018 was the first year of IFRS 15 application. Following are the significant accounting judgements and key sources of estimations used in applying IFRS 15.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### *2.2 Judgements and key sources of estimation uncertainty (continued)*

##### *i) Transaction price for the sale of goods*

Some of the company's contracts include multiple performance obligations, the company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices for the products and/or services underlying each performance obligation. When the standalone selling prices are not directly observable, the company estimates the standalone selling prices primarily based on the expected cost-plus margin approach. For arrangements comprised strictly of the sale of product and performance of maintenance type services where the standalone selling price of the maintenance service is not recognizable, the company estimates the standalone selling price of the maintenance contract using the residual approach. When the residual approach cannot be applied, regional pricing, marketing strategies and business practices are evaluated and analysed to derive the estimated standalone selling price using a cost-plus margin methodology.

##### *ii) Identifying performance obligations in a bundled sale of products and services*

The company enters into contract arrangements that may include various combinations of tangible products and services, which generally are capable of being distinct and accounted for as separate performance obligations. For these types of contract arrangements, the company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract has more than one performance obligation. This evaluation requires judgment and the decision to combine

#### *Revenue from contracts with customers (continued)*

##### *ii) Identifying performance obligations in a bundled sale of products and services (continued)*

a group of contracts or separate the combined or single contract into multiple performance obligations which could change the amount of revenue recorded in the reporting period. The company uses the accounting guidance on "capable of being distinct" and "distinct within the context of the contract" to assist with the evaluation.

##### *iii) Determining the timing of satisfaction of installation services*

The company concluded that revenue for installation services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the company. The fact that another entity would not need to re-perform the installation that the company has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the company's performance as it performs.

##### *iv) Determining method to estimate variable consideration and assessing the constraint*

For some of the transactions, products are sold with a right of return, and the company may also provide other rebates, volume discount, price protection or incentives, which are accounted for as variable consideration. The company estimates the amount of variable consideration by using the expected value or the most likely amount method and reduces the revenue by those estimated amounts, only to the extent it is probable that a significant reversal in the cumulative revenue recognized will not occur. These estimates are reviewed and updated, as necessary, at the end of each reporting period.

In estimating the variable consideration for the sale of products with volume discount, the company determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the company considers whether the amount of variable consideration is constrained. The company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies

##### **Group financial statements**

The company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements as it and its subsidiary undertakings are included in the publicly available consolidated financial statements of its ultimate parent Zebra Technologies Corporation. These financial statements present information about the company as an individual undertaking and not about its group.

##### **Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

Goodwill is initially measured at cost arising on acquisition of businesses, representing any excess of the fair value of consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, as the value is not considered by the Directors' to reduce gradually over its life but reviews it for impairment on an annual basis or whenever there are indicators of impairment 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Acts as by recognising impairments as they arise, this better reflects the true carrying value of the goodwill.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

##### **Intangible fixed assets**

Intangibles fixed assets are included at cost and amortised at rates calculated to write-off the cost on a straight-line basis over its expected useful economic life, as follows:

Patents	–	3 to 5 years
Customer relationship	–	3 to 9 years
Intangible - other	–	3 to 5 years

Provision is made for any impairment.

##### **Impairment of non-financial assets**

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

##### **Cash at bank and in hand**

Cash and short-term deposits in the balance sheet comprises of cash at banks and in hand and short term deposits with an original maturity of three months or less.

The company (cash pool administrator) has concluded the cash pooling agreement with other group companies from EMEA region (original cash pool participants) on April 5, 2019. Based on this agreement the company receives the cash surplus from original cash pool participants. Interest payable under the Cash

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### *Cash at bank and in hand (continued)*

Pooling arrangement is accrued on the amount received at an interest rate of EURIBOR + 0.25 % p.a. margin. The arrangement works as zero balance (physical) cash pooling.

##### *Financial assets*

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost and fair value through profit or loss.

- **Financial assets at amortised cost (debt instruments)**

The company's financial assets at amortised cost includes loan to group intercompany and are included under Debtors: amounts receivable within one year and after more than one year.

The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

- **Derecognition**

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

- **Impairment of financial assets**

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### **Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables.

All financial liabilities are recognised initially at fair value and in the case of loans, borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables, loans and borrowings.

##### • **Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured for amortization. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Amortised cost is calculated by taking into account any discount, premium on acquisition and fees or costs.

This category generally applies to interest-bearing loans and borrowings.

##### • **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

##### **Trade and other debtors**

Trade debtors are amounts due from customers in the ordinary course of business. If collections are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade debtors are recognised at fair value. Provision for impairment is made through profit or loss when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

##### **Trade and other creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade creditors are initially measured at fair value and subsequently measured at amortised cost.

##### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets, other than freehold land and assets under construction, at rates calculated to write-off the cost less the estimated residual value of each asset on a straight line basis over its expected useful economic life, as follows:

Freehold land and buildings	–	25 years
Freehold building improvements	–	10 years
Leasehold improvements	–	over the life of lease
Plant and machinery	–	up to 10 years
Fixtures, fittings, tools and equipment	–	5 to 10 years
Capitalised software	–	3 to 7 years
Right-of-use assets	–	over the life of lease

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### **Tangible fixed assets (continued)**

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An asset is regarded as being in the course of construction until ready for its intended use, when it is reclassified and depreciated over its estimated useful economic life.

Useful lives and residual values are reviewed annually and where adjustments are required, they are made prospectively.

Tangible fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

##### **Investments**

Investments are held on the balance sheet at their initial cost.

Investments in subsidiary undertakings are stated at cost less any provision for impairment considered necessary by the directors.

The company invests surplus cash under a group Cash Pooling arrangement. Interest receivable under the group Cash Pooling arrangement is accrued on the amount invested at an interest rate of the US Treasury bill rate plus 0.25%. No other interest is charged on intercompany balances, trading or otherwise.

The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

##### **Dividend**

The company recognises a liability to pay dividend when the distribution of dividend is authorised by the shareholders, as per the UK law. As a corresponding entry an amount is recognised in equity.

Dividend received from the subsidiary undertakings is recognised directly in current year's income statement.

##### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding Value Added Tax and other sales taxes.

For all the period up to and including the year ended 31 December 2017 the company prepared its financial statements under the previous revenue recognition standard IAS 18. Since prior year financial statements, the year ending 31 December 2018, the company has applied the new accounting standard IFRS 15 *Revenue from Contracts with Customers*.

The company recognizes revenue when transfer of control has occurred for the goods or services sold. Control is deemed to have been transferred when the customer has the ability to direct the use of and has obtained substantially all of the remaining benefits from the goods and services sold. The company uses judgment in the evaluation of the following criteria: 1) the customer simultaneously receives and consumes the benefits provided by the transfer of goods or service; 2) the performance creates or enhances an asset that is under control of the customer; 3) the performance does not create an asset with an alternative use to the company; and 4) the company has an enforceable right to payment, in order to determine whether control transfers at a point in time or over time. For each performance obligation satisfied over time, the company measures its progress toward completion to determine the timing of revenue recognition. Judgment is also used in the evaluation of the following transfer of control criteria: 1) the company has a present right to payment for the asset; 2) the legal title to the asset has transferred to the customer; 3) the customer has physical possession of the asset; 4) the customer has the significant risks and rewards of ownership of the asset; and 5) the customer has accepted the asset, in order to determine when revenue should be recognized in a point in time revenue recognition pattern. Assuming all other criteria for revenue recognition have been met, for products and services sold on a standalone basis, revenue is generally recognized upon shipment

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### *Revenue recognition (continued)*

and by using an output method or time-based method respectively. In cases where a bundle of products and services are delivered to the customer, judgment is required to select the method of progress which best reflects the transfer of control.

##### *Revenue recognition (continued)*

Apart from the following criteria that must be met, the company also uses various judgements and estimates as per 2.2 above in Accounting Policies, before revenue is recognised:

##### *i) Sale of goods*

Revenue represents the amounts (excluding Value Added Tax) derived from the provision of goods and services / maintenance warranties to customers.

##### *ii) Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

##### *iii) Rendering of services*

Revenue from extended service agreements / maintenance warranties is recognised over the term of the agreement on a straight line basis. Any unrecognised revenue element is disclosed separately in the balance sheet as contract liability.

##### *iv) Rights of return*

The company has certain customer contracts whereby customer has a right to return the goods as per the agreed terms. The company uses the expected value method to estimate the goods that will not be returned because this method best estimates the amount of variable consideration that the company will be entitled. For goods that are expected to be returned, the company recognises a refund liability.

##### *v) Volume discount*

The company provides retrospective volume discount to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future discounts.

##### *vi) Warranty*

In general, the company provides warranty coverage of one year on mobile computers, printers and batteries. Advanced data capture products are warrantied from one to five years, depending on the product. Thermal printheads are warrantied for six months and battery-based products, such as location tags, are covered by a 90-day warranty. A provision for warranty expense is adjusted quarterly based on historical and expected warranty experience.

##### *vii) Significant financing component*

As per the new standard if a company receives short-term or long-term advances from its customers it should discount the consideration to show the effect of the financing component. The company does not receive any short-term or long-term advances from its customers, therefore this criterion does not apply to the company.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### Revenue recognition (continued)

##### viii) Non-cash consideration

As per the new standard if a company receives non-cash consideration from its customers it should include that in the transaction price. The company does not receive any short-term or long-term advances from its customers, therefore this criterion does not apply to the company.

##### ix) Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The company includes these contract assets in Trade Debtors as per note 16.

##### x) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the company performs under the contract.

##### xi) Costs to obtain a contract

The company recognizes incremental direct costs of obtaining a contract, which consist of sales commissions and incremental fringe benefits, are deferred and amortized over the weighted-average contract term. The adoption of IFRS 15 required the capitalization of these costs which resulted in an adjustment to increase retained earnings in the year ending 31 December 2018.

##### Stocks

Stocks are valued on a first in, first out basis at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For finished goods manufactured by the company, cost is taken as production costs, which includes an appropriate proportion of attributable overheads based on a normal level of activity. Management review inventory quantities on hand and record a provision for excess and obsolete inventory based on forecasts of product demand and production requirements for the subsequent twelve months.

##### Income taxes

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

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment. Income tax is charged or credited to the income statement.



## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### *Foreign currencies*

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 re-translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

##### *Forward foreign currency contracts*

The company uses forward foreign currency contracts to reduce exchange rate exposure on a proportion of future forecasted turnover.

Any premiums paid are disclosed in the balance sheet and included in note 16, as "Forward foreign currency contract premiums", until contract maturity. On maturity, premiums are expensed and disclosed in the income statement.

On maturity, if a contract is exercised, the foreign currency turnover transaction, equivalent to the value of the contract, is translated at the contract exchange rate instead of the exchange rate of the day.

The fair values of contracts held at the balance sheet date and gain or loss made on contracts and recognised in income statement are disclosed in note 24.

##### *Leases*

IFRS 16 requires lessees to recognise assets and liabilities under an on-balance sheet model that is similar to finance lease accounting under IAS 17 - Leases ("IAS 17"). IFRS 16 is effective from 1 January 2019 (the date of adoption). The Company adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognised as an adjustment to the Company's opening equity balance on 1 January 2019. The comparative period has not been restated and continues to be reported under the accounting standards in effect for periods prior to 31 December 2018.

##### *Transition*

The following practical expedients have been made upon transition to IFRS 16:

- Contracts that were previously identified as leases by applying IAS 17 and IFRIC 4, Determining whether an Arrangement contains a Lease, have not been re-assessed under IFRS 16;
- A discount rate was applied to leases based on individual assessment of each contract. Lease liabilities were discounted at their respective incremental borrowing rates as at 1 January 2019 and the weighted average of the discount rates used was 4.35 %; and
- In measuring the right-of-use assets at the date of adoption, the initial direct costs were excluded.

For leases classified as finance leases under IAS 17, the carrying amounts of the right-of-use assets and lease liabilities at 1 January 2019 were determined as the carrying amounts of the lease assets and lease liabilities under IAS 17 immediately before that date. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, where the company is a lessor, we continue to classify our leases as operating leases or finance leases and account for them accordingly.

##### *As a Lessee*

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or modified, on or after 1 January 2019. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. Except for real estate properties, the Company has elected not to separate non-lease components and will account for the lease and non-lease components as a single lease component.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### *Leases (continued)*

**Right-of-use asset:** The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-to-use asset is determined based on the nature of the asset, taking into consideration the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain corresponding remeasurements of the lease liability.

**Lease liability:** the lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is determined considering macro-economic factors such as the risk free rate based on the relevant currency and term, as well as Zebra Technologies Incorporated (Zebra) specific factors contributing to Zebra's credit spread, including the impact of security. The Company primarily uses the incremental borrowing rate as the discount rate for its lease liabilities.

Lease payments used to measure the lease liability include the following, if appropriate:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate applicable as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- if reasonably certain to exercise, the exercise price under a purchase option, or lease payments in an optional renewal period; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in Tangible fixed assets and lease liabilities in creditors, split between current and non-current.

The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases and low-value leases for all classes of leased assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term

##### *As a Lessor*

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If the risks and rewards are substantially transferred, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### *Leases (continued)*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable, net of incentives, are charged in the income statement on a straight line basis over the lease term.

##### *Pensions*

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

##### *Share-based payments*

##### *Equity settled transactions*

Stock awards in the company's ultimate parent undertaking, Zebra Technologies Corporation are granted to certain employees of Zebra Technologies Europe Limited.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting periods, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above.

The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 2. Accounting policies (continued)

#### *2.3 Significant accounting policies (continued)*

##### ***Share based payments (continued)***

No reduction is recognised if this difference is negative. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement or directly booked in equity for a certain element of share-based payments.

##### ***Employee share schemes***

The cost of awards to employees that have the form of shares or rights to shares are recognised over the period of the employees' related performance. Where there are no performance criteria the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of Save As You Earn ("SAYE") schemes that are offered on similar terms to all, or substantially all, employees.

##### ***Other taxation and social security***

National Insurance on outstanding share options that are expected to be exercised is calculated at the total enacted National Insurance rate applied to the difference between the market value of the underlying shares at the balance sheet date and the option exercise price and allocated over the period from the date of grant to the end of the performance period.

##### ***Provisions for Liabilities***

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3. Revenue

Revenue and profit before taxation were derived from the principal continuing activity of the company.

Revenue analysed by geographical market is not disclosed because the directors consider such disclosure would be prejudicial to the business of the company.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 4. Gross and Operating profit

This is stated after charging:

	2019	2018
	\$'000	\$'000
Cost of sales		
Cost of goods sold	637,900	605,287
Freight and duty	29,998	27,036
Other	123,728	108,946
	<u>791,626</u>	<u>741,269</u>
Administrative expenses		
Depreciation of tangible fixed assets		
– owned	1,794	1,748
– Right of Use asset	1,379	-
Operating lease rentals		
– land and buildings	-	1,485
– plant and machinery	-	298
Exchange loss	1,792	4,819
Other administrative expenses	241,210	236,133
	<u>246,175</u>	<u>244,483</u>
Amortisation of intangible assets		
Customer relationships	25,435	28,834
Patents	14,667	14,667
Other intangibles	15,888	15,888
	<u>55,990</u>	<u>59,389</u>

### 5. Auditor's remuneration

	2019	2018
	\$'000	\$'000
Audit fee	<u>56</u>	<u>57</u>

Fee regarding the audit required for group purposes of \$295,000 (2018 - \$321,000) is borne by another entity within the group and the current amount disclosed represents the fee relating to statutory updates required following the completion of the group audit.

### 6. Directors' remuneration

	2019	2018
	\$'000	\$'000
Remuneration	836	906
Amounts receivable under long term incentive schemes	1,081	632
Company's contribution to defined contribution pension scheme	13	11
	<u>1,930</u>	<u>1,549</u>

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 6. Directors' remuneration (continued)

The aggregate remuneration of the highest paid director was \$1,056,667 (2018 - \$785,727) including company pension contributions of \$13,115 (2018 - \$0) that were made to a defined contribution pension scheme on their behalf.

Retirement benefits are accruing to 2 directors (2018 - 2) under defined contribution pension schemes.

Number of directors (including the highest paid director) who exercised share options is 2 (2018 - 2).

Number of directors (including the highest paid director) who received shares under the long term incentive scheme is 2 (2018 - 2)

Some of the directors of the company are also directors or officers of other companies within the Zebra Technologies Corporation group and are remunerated by other group companies. The directors consider that their provision of services to Zebra Technologies Europe Limited is incidental to their provision of services to other group companies and as such their remuneration has been borne by those other group companies.

### 7. Staff costs

	2019 \$'000	2018 \$'000
Wages and salaries	52,410	53,642
Social security costs	5,041	6,238
Other pension costs	2,185	2,438
	<u>59,636</u>	<u>62,318</u>

Included in wages and salaries is a total expense for share based payments of \$1,792,000 (2018 - \$1,815,000) of which \$1,792,000 (2018 - \$1,815,000) arises from transactions accounted for as equity-settled share based payment transactions.

The average monthly number of employees (including directors) during the year was made up as follows:

	2019 No.	2018 No.
Administration and sales	356	325
Production	217	217
	<u>573</u>	<u>542</u>

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 8. Interest receivable and other income

	2019 \$'000	2018 \$'000
Interest received from cash pooling arrangements and other income	<u>9,938</u>	<u>4,348</u>

### 9. Interest payable and similar charges

	2019 \$'000	2018 \$'000
Interest payable	22	5
Interest payable to group undertakings	<u>55</u>	<u>19,787</u>
	<u>77</u>	<u>19,792</u>

On 1 January 2017, the company entered into an agreement with Zebra Luxco III S.a.r.l. (a group company) to acquire Intellectual Property rights and other intangibles relating to a business segment for \$705,000,000. The acquisition was financed via an intercompany loan payable to Zebra Technologies (Barbados) Finco SRL.

On 31 May 2018 this loan has been repaid by using cash received from new shares issued to Zebra Jersey Holdings II Limited, its immediate parent company. Interest on this loan was payable at 5.50% p.a.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 10. Tax

(a) Tax charged in the income statement

	2019 \$'000	2018 \$'000
<b>Current tax:</b>		
Current tax on profits for the year	73,741	69,617
Adjustments in respect of prior years	111	(3,952)
Foreign tax relief / other relief	(44)	(172)
Foreign tax suffered	62	34
Total current tax	<u>73,870</u>	<u>65,527</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences – current year	(1,806)	(4,096)
Adjustment in respect of prior years	4	(441)
Effect of changes in tax rates	190	270
Total deferred tax (note 10(c))	<u>(1,612)</u>	<u>(4,267)</u>
Tax expense in the income statement	<u>72,258</u>	<u>61,260</u>
<b>Equity items (credit) / charge:</b>		
Current tax	(553)	(67)
Deferred tax current year	114	(230)
Deferred tax – prior year	3	(83)
	<u>(436)</u>	<u>(380)</u>

(b) Factors affecting total tax charge for the period

The tax assessed on the profit on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are reconciled below:

Profit for the period before tax - continuing operations	<u>383,415</u>	<u>348,968</u>
Tax on profit at standard UK tax rate of 19.00% (2018 - 19.00%)	72,849	66,304
<b>Effects of:</b>		
Adjustments in respect of prior years	116	(4,393)
Expenses not deductible	379	346
Income not taxable	(750)	(920)
Tax rate change	190	270
Effect of overseas tax rates	47	(137)
Amounts not recognized in relation to amortization	130	162
Share scheme deduction	(703)	(372)
Tax charge for the period (note 10(a))	<u>72,258</u>	<u>61,260</u>



## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 10. Tax (continued)

#### (c) Deferred tax

	2019	2018
	\$'000	\$'000
Provision at start of period	(9,137)	(4,555)
Adjustment in respect of prior years	7	(525)
Deferred tax (credit) / charge to income statement for the period	(1,617)	(3,827)
Deferred tax (credit) / charge in equity for the period	114	(230)
Provision at end of period	<u>(10,633)</u>	<u>(9,137)</u>

The balance of the deferred taxation account shown on the balance sheet consists of the tax effect of timing differences in respect of:

	2019	2018
	\$'000	\$'000
Deferred tax assets on intangibles	(10,192)	(8,603)
Deferred tax liability on fixed assets	177	199
Temporary differences trading	(35)	(64)
Share options	(583)	(669)
Transition to IFRS 15 (note 29)	-	-
Total deferred tax asset	<u>(10,633)</u>	<u>(9,137)</u>

A deferred tax asset has been recognised as the directors believe that, based on forecast results, it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### Unrecognised deferred tax:

	2019	2018
	\$'000	\$'000
Fixed assets	(358)	(242)
	<u>(358)</u>	<u>(242)</u>

#### (d) Change in Corporation Tax rate

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020.

Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However, the Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 11 March 2020 by way of a special resolution. Had the 19% rate been substantively enacted at the balance sheet date, the impact on the closing deferred tax balances at 31 December 2019 would be \$1,251,000.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 11. Dividends

A final dividend of \$296,000,000 was declared and paid to Zebra Jersey Holdings II Limited during the year ended 31 December 2019 (2018 - \$117,000,000). A dividend of \$3,945,000 was received during the year from subsidiary undertakings (2018 - \$2,131,000).

### 12. Intangible fixed assets

	<i>Patents</i>	<i>Customer relationships</i>	<i>Intangible - Other</i>	<i>Goodwill</i>	<i>Total</i>
		<i>\$'000</i>		<i>\$'000</i>	<i>\$'000</i>
<b>Cost:</b>					
At 1 January 2019	48,597	141,040	56,822	651,062	897,521
<b>At 31 December 2019</b>	<u>48,597</u>	<u>141,040</u>	<u>56,822</u>	<u>651,062</u>	<u>897,521</u>
<b>Amortisation:</b>					
At 1 January 2019	(29,334)	(52,614)	(31,776)	(1,983)	(115,707)
Charge for the year	(14,667)	(25,435)	(15,888)	-	(55,990)
<b>At 31 December 2019</b>	<u>(44,001)</u>	<u>(78,049)</u>	<u>(47,664)</u>	<u>(1,983)</u>	<u>(171,697)</u>
<b>Net book value:</b>					
<b>At 31 December 2019</b>	<u>4,596</u>	<u>62,991</u>	<u>9,158</u>	<u>649,079</u>	<u>725,824</u>
At 1 January 2019	19,263	88,426	25,046	649,079	781,814

#### Other Intangible Assets

Other intangible assets consist primarily of current technology, customer relationships, trade names, unpatented technology, patents and patent rights. These assets are recorded at cost and amortized on a straight-line basis over the asset's useful life which range from 3 years to 9 years.

#### Goodwill impairment test

The company test the goodwill for an annual impairment, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The company's annual impairment testing consists of comparing the estimated fair value of each reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its estimated fair value, goodwill would be considered to be impaired and reduced to its implied fair value. The company estimates the fair value of reporting units with valuation techniques including both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates.

The company performed goodwill impairment test in the fourth quarter of 2019 using a quantitative approach which did not result in any impairment.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 13. Tangible fixed assets

	<i>Freehold land and buildings \$'000</i>	<i>Freehold building improvements \$'000</i>	<i>Leasehold improvements \$'000</i>	<i>Plant and machinery \$'000</i>	<i>Fixtures, fittings, tools and equipment \$'000</i>	<i>Asset under construction \$'000</i>	<i>Right of use asset (IFRS 16) \$'000</i>	<i>Total \$'000</i>
<b>Cost:</b>								
At 1 January 2019	1,759	3,473	3,148	7,535	2,574	597	1,635	19,086
Additions	-	-	-	-	-	1,935	4,036	7,605
Transfers	-	502	34	1,826	65	(2,427)	-	-
Disposals	-	-	-	-	(3)	-	-	(3)
<b>At 31 December 2019</b>	<b>1,759</b>	<b>3,975</b>	<b>3,182</b>	<b>9,361</b>	<b>2,635</b>	<b>105</b>	<b>5,671</b>	<b>26,686</b>
<b>Depreciation:</b>								
At 1 January 2019	(877)	(1,044)	(1,418)	(4,267)	(1,429)	-	-	(9,035)
Charge for the year	-	(247)	(543)	(711)	(294)	-	(1,379)	(3,173)
On disposal	-	-	-	-	3	-	-	3
<b>At 31 December 2019</b>	<b>(877)</b>	<b>(1,290)</b>	<b>(1,961)</b>	<b>(4,978)</b>	<b>(1,720)</b>	<b>-</b>	<b>(1,379)</b>	<b>(12,205)</b>
<b>Net book value:</b>								
<b>At 31 December 2019</b>	<b>882</b>	<b>2,685</b>	<b>1,221</b>	<b>4,383</b>	<b>916</b>	<b>105</b>	<b>4,293</b>	<b>14,484</b>
At 1 January 2019	882	2,429	1,730	3,268	1,145	597	-	10,051

The Company has lease contracts for various items of buildings and their improvements, motor vehicles and office equipment used in its operations. The lease of machinery and office equipment generally have lease terms between 3 and 5 years, and leases for office buildings generally have lease terms of 3 to 10 years.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 14. Investments

	2019	2018
	\$'000	\$'000
Share in group undertaking as of 1 January 2019 (A)	82	82
Restricted cash deposits (B)	137	137
New share in group undertaking acquired during year (C)	6,984	-
Share in group undertaking as of 31 December 2019	<u>7,203</u>	<u>219</u>

(A) Shares in group undertakings are accounted for at net book value. Details of subsidiary undertakings are as follows:

Name	Class of shares	Number held	% held
Zebra Technologies BV ("ZTBV")	€1,000 ordinary	200	100
Zebra Technologies AB ("ZTAB")	€1 ordinary	11,000	100
Zebra Technologies Sp. z.o.o. ("ZT Sp.zoo")	1,000 PLN ordinary	50	100

ZTBV is incorporated and registered in The Netherlands (Registered office address: Mercurius 12, 8448GX Heerenveen, The Netherlands).

ZTAB is incorporated and registered in Sweden (Registered office address: Borgarfjordsgatan 13A, 164 40 Kista, Sweden).

ZT Sp. z.o.o. is incorporated and registered in Poland (Registered office address: ul. Annopol 4a, 03-236 Warsaw, Poland).

(B) Restricted cash deposits relate to funds deposited into a bank account in Saudi Arabia, which are not available to use as long as the branch is operating in Saudi Arabia.

(C) New shares in group undertakings acquired during year are accounted for at fair value. Details of subsidiary undertakings are as follows:

Name	Class of shares	Number held	% held
Cortexica Vision Systems Limited ("CVSL")	0.001 GBP ordinary	5,975,356	100

CVSL is incorporated and registered in The United Kingdom (Registered office address: since 6th April 2020: Dukes Meadow Millboard Road Bourne End SL8 5XF (previously: 6th Floor, WeWork Southbank Central 30 Stamford Street London SE1 9LQ England)).

### 15. Stocks

	2019	2018
	\$'000	\$'000
Raw materials and consumables	19,958	5,905
Finished goods and goods for resale	80,774	95,915
	<u>100,732</u>	<u>101,820</u>

Cost of stocks recognised as an expense (included in cost of sales) is \$577,668,000 (2018 - \$537,697,000). Inventory write off recognised as an expense during the year is \$2,102,000 (2018 - \$805,000).

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 16. Debtors

	2019 \$'000	2018 \$'000
Trade debtors		
<i>Trade Debtors</i>	120,220	121,213
<i>Bad debts allowance</i>	(261)	(376)
<i>Contract assets</i>	150	86
	<u>120,109</u>	<u>120,923</u>
Amounts owed by group undertaking	414,472	271,813
Prepayments	16,524	8,700
Deferred tax asset	10,633	9,137
	<u>561,738</u>	<u>410,573</u>

Amount owed by group undertaking includes investment in group cash pooling arrangement of \$407,753,000 (2018 - \$260,556,000). The company invests surplus cash under a group Cash Pooling arrangement managed by an intermediary parent undertaking, Zebra Diamond Holdings Limited. Interest receivable under the group Cash Pooling arrangement is accrued on the amount invested at an interest rate of the US Treasury bill rate plus 0.25% p.a. (2018 - 0.25% p.a.). There were no impairments during the year.

In 2018, the company entered into a receivables factoring arrangement, pursuant to which, certain receivables are sold to a bank in exchange for cash without the company maintaining a beneficial interest in the receivables sold. The company services the receivables on behalf of the bank, but otherwise maintains no continuing involvement with respect to the receivables. As of December 31, 2019, \$59,814,000 (2018 - \$33,092,000) of uncollected receivables have been sold and Trade debtors have been reduced by this amount.

Upon adoption of IFRS 15, the company has recognised contract assets for any earned consideration that is conditional.

As per IFRS 15 following table shows the movement for Bad debts allowance and Contract assets during the year:

	<i>Bad debts allowance</i> \$'000	<i>Contract assets</i> \$'000	<i>Total</i> \$'000
At 1 January 2019	(376)	86	(290)
Arising during the year	(241)	536	294
Utilised	356	(472)	(114)
At 31 December 2019	<u>(261)</u>	<u>150</u>	<u>(110)</u>

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 17. Creditors: amounts falling due within one year

	2019 \$'000	2018 \$'000
Trade creditors	130,631	137,028
Lease liabilities	1,472	-
Amounts owed to group undertakings	107,229	57,765
Corporation tax	29,852	43,702
Other taxes and social security	3,273	3,172
Accruals	66,344	31,859
Contract liabilities	81,134	78,280
	<u>419,935</u>	<u>351,806</u>

Revenue from extended service agreements / maintenance warranties is recognised over the term of the agreement on a straight-line basis. Upon adoption of IFRS 15, the company disclosed element of unrecognised revenue separately in the balance sheet as contract liability. The above contract liability represents the short-term portion, due within one year.

Amount owed to group undertaking includes cash received in cash pooling arrangements of \$34,924,000 (2018 – nil) from other cash pooling participants. Interest payable under the cash pooling arrangement is accrued on the amount received at an interest rate of EURIBOR + 0.25 % p.a. margin.

#### Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period

	2019 \$'000
At 1 January 2019	1,610
Additions	3,212
Payments	(224)
At 31 December 2019	<u>4,598</u>
Non-current (note 18)	3,126
Current	<u>1,472</u>
	<u>4,598</u>

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 18. Creditors: amounts falling due after more than one year

	2019 \$'000	2018 \$'000
Contract liabilities	85,551	70,005
Lease liabilities	3,126	-
Amounts owed to group undertakings	-	-
	<u>88,677</u>	<u>70,005</u>

Revenue from extended service agreements / maintenance warranties is recognised over the term of the agreement on a straight line basis. Upon adoption of IFRS 15, the company disclosed element of unrecognised revenue separately in the balance sheet as contract liability. The above contract liability represents the long term portion, due after more than one year.

### 19. Provisions for liabilities

	<i>Dilapidations</i> \$'000	<i>Maintenance warranties</i> \$'000	<i>Environmental</i> \$'000	<i>Total</i> \$'000
At 1 January 2019	398	5,979	50	6,427
Arising during the year	45	6,717	-	6,762
Utilised	-	(7,252)	-	(7,252)
At 31 December 2019	<u>443</u>	<u>5,444</u>	<u>50</u>	<u>5,937</u>
Analysed as:				
Current	-	5,444	50	5,494
Non-current	443	-	-	443

#### ***Dilapidations***

The company has a provision for dilapidations of its properties.

#### ***Maintenance warranties***

In general, the company provides warranty coverage of one year on mobile computers, printers and batteries. Advanced data capture products are warrantied from one to five years, depending on the product. Thermal printheads are warrantied for six months and battery-based products, such as location tags, are covered by a 90-day warranty. A provision for warranty expense is adjusted quarterly based on historical and expected warranty experience.

#### ***Waste Electrical and Electronic Equipment***

Under the Waste Electrical and Electronic Directive (WEEE), producers of electronic goods are financially responsible for specified collection, recycling, treatment and disposal of past and future electronic products. The provision in the financial statements represents management's estimate of the amount required to cover the anticipated liability. This provision has been calculated based on estimated costs of freight, recycling, handling and administration, taking into account estimates of average lifetime of relevant products.

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 20. Authorised, issued and called up share capital

<i>Authorised, allotted, called up and fully paid</i>	<i>No.</i>	<i>2019</i>	<i>No.</i>	<i>2018</i>
		<i>\$ '000</i>		<i>\$ '000</i>
Ordinary shares of £1 each	4,891,604	<u>7,818</u>	4,891,604	<u>7,818</u>

On 31 May 2018 and 28 August 2018, the company allotted and issued 9,000 and 2,131 ordinary shares of £1.00 each to Zebra Jersey Holdings II Limited, the company's sole member, for an aggregate subscription price of \$573,275,000 in cash.

### 21. Movements on reserves

	<i>Share premium account</i>	<i>Retained earnings</i>	<i>Total Reserves</i>
	<i>\$ '000</i>	<i>\$ '000</i>	<i>\$ '000</i>
At 1 January 2019	573,991	296,645	870,636
Profit for the year	-	311,157	311,157
Dividend paid from Retained Earnings	-	(296,000)	(296,000)
Credit in relation to share related awards	-	1,792	1,792
Charge in relation to share based payments (note 10 (a))	-	436	436
At 31 December 2019	<u>573,991</u>	<u>314,030</u>	<u>888,021</u>

	<i>Share premium account</i>	<i>Retained earnings</i>	<i>Total Reserves</i>
	<i>\$ '000</i>	<i>\$ '000</i>	<i>\$ '000</i>
At 1 January 2018	731	123,741	124,472
New share premium issued during the year	573,260	-	573,260
Profit for the year	-	287,708	287,708
Dividend paid from Retained Earnings	-	(117,000)	(117,000)
Credit in relation to share related awards	-	1,815	1,815
Credit in relation to share based payments (note 10 (a))	-	381	381
At 31 December 2018	<u>573,991</u>	<u>296,645</u>	<u>870,636</u>

On 31 May 2018 and 28 August 2018, the company allotted and issued 9,000 and 2,131 ordinary shares of GBP 1.00 each to Zebra Jersey Holdings II Limited, the company's sole member, for an aggregate subscription price of \$573,275,000 in cash.

### 22. Pensions

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to \$2,185,000 (2018 - \$2,438,000). There were no contributions outstanding at year end (2018 - nil).



## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 23. Share-based payments

Stock awards (Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards Performance Stock Awards and Restricted Stock Units) in the company's ultimate parent undertaking, Zebra Technologies Corporation are granted to certain employees of the company.

For purposes of calculating the compensation cost consistent with IFRS 2, the fair value is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualised volatility of Zebra Technologies Corporation's stock prices over our entire stock history. The following table shows the weighted average assumptions used for stock award grants as well as the fair value of the options granted based on those assumptions:

	2019	2018
Expected dividend yield	-	-
Forfeiture rate	8.20%	8.40%
Volatility	36.79%	35.93%
Risk free interest rate	2.28%	2.96%
Range of interest rates	2.28% - 2.44%	1.68% - 3.00%
Expected weighted average life	4.02 years	4.11 years
Fair value of options granted	\$1,712,137	\$1,916,516
Weighted average grant date fair value of options granted	\$211.20	\$149.84

No charge is made to the company by Zebra Technologies Corporation for these stock awards. However, in accordance with IFRS 2, a charge of \$1,792,000 (2018 - \$1,815,000) has been made to the current year income statement, with a corresponding equivalent amount credited to reserves, see note 21.

### 24. Derivatives

The company purchases forward foreign currency contracts to hedge a proportion of currency exposure on future forecasted turnover. The premiums paid on contracts held at the balance sheet date are shown in note 16.

The fair values of the derivatives held at the balance sheet date, determined by reference to their market values are as follows:

	2019 \$'000	2018 \$'000
Options	-	-
Participating forwards	-	-
Forwards	<u>2,908</u>	<u>14,953</u>

Gain made on forward foreign currency contracts and recognised in income statement is as follows:

	2019 \$'000	2018 \$'000
Options	-	(2,179)
Participating forwards	-	(2,657)
Forwards	<u>41,856</u>	<u>17,324</u>
	<u>41,856</u>	<u>12,488</u>

## Notes to the financial statements

for the year ended 31 December 2019 (continued)

### 25. Capital commitments

The company had no capital commitments at the end of the financial year (2018 - nil).

### 26. Off-balance sheet arrangements

Since 1 January 2019 operating leases are subject to newly adopted standard IFRS16 which are subject to monthly depreciation process, so there are no off-balance sheet arrangements.

### 27. Related party transactions

During the year, the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of Zebra Technologies Corporation.

### 28. Ultimate Group undertaking

The immediate parent undertaking of Zebra Technologies Europe Limited is Zebra Jersey Holdings II Limited, a company incorporated in Jersey.

The ultimate parent undertaking and controlling party is Zebra Technologies Corporation, a company incorporated in the United States of America. This is the smallest and largest undertaking into which the results of the company are consolidated.

Copies of financial statements for Zebra Technologies Corporation may be obtained from the company's registered office at 3 Overlook Point, Lincolnshire, Illinois, USA.

### 29. Subsequent events

#### Impact of the Coronavirus (COVID-19) outbreak

As indicated in the Strategic Report, subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. A range of temporary social measures such as remote working have been taken to ensure our employees are protected as far as possible by minimising all but business critical office based tasks, whilst ensuring our customers continue to be served to a high standard.

The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of our business. The scale and duration of these developments remain uncertain as at the date of this report however they will have an impact on our fiscal year 2020 earnings, cash flow and financial condition. The directors have prepared a detailed sensitivity analysis of the COVID-19 impact on revenue, profitability and cash flow for 2020 and the going concern period, being 12 months from the date of approval of the financial statements. These models analysed the impact of the Pandemic and covered the companies probable and worst-case scenarios. Both of these scenarios looked at the impact due to the lower demand for the company's products and services and government enforced lockdowns impacting supply chain. The company expects to make a profit after tax during 2020 under both scenarios

In order to minimise the impact on operating profit, the directors may utilise the financial support schemes, such as the furlough of staff, offered by the UK Government. To preserve working capital, the company has deferred the payment of certain taxes in agreement with HMRC.

There is the potential should global macro-economic weakness persist and customers enter financial difficulty, the company may be exposed to higher risk of asset impairments in the future.

There are no other subsequent events that impact the company for the year ended 31 December 2019.