

**EXOVA (UK) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**



COMPANIES HOUSE

**30 APR 2021**

EDINBURGH MAILBOX

# **EXOVA (UK) LIMITED**

## **COMPANY INFORMATION**

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|--------------------------|--|
| <b>Directors</b>         | William Winter<br>Robert Veitch  |
| <b>Company number</b>    | SC070429   |
| <b>Registered office</b> | Lochend Industrial Estate<br>Queen Anne Drive<br>Newbridge<br>United Kingdom<br>EH28 8LP |
| <b>Auditor</b>           | Ernst & Young LLP<br>1 More London Place<br>London<br>United Kingdom<br>SE1 2AF          |

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# **EXOVA (UK) LIMITED**

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# **EXOVA (UK) LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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The Directors present their report and financial statements of Exova (UK) Limited for the financial year ended 31 December 2019. This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies. The directors have taken advantage of section 414B whereby the Company is exempt from preparing a strategic report.

#### **Principal Activity**

Exova (UK) Limited is part of a global network of laboratories with experts specialising in materials testing, product qualification testing and failure analysis. The Company is a wholly owned subsidiary of Exova Group (UK) Limited. The parent company of the smallest group of which the Company is a member, and for which group financial statements are prepared, is Element Materials Technology Limited. This is the "Group" referred to throughout the financial statements.

During 2018, the Company was restructured into separate sector-based operating companies, meaning that the Company no longer performs testing activities. Eight new legal entities were established and passed up into Exova Group (UK) Limited as part of this restructure. These entities are a mix of holding companies and trading companies, which perform the testing activities. The sponsorship of the TTL Chiltern defined benefit pension scheme was transferred to Warringtonfire Testing and Certification Limited as part of this project. The principal activity of the Company throughout 2019 was to operate as an intermediary holding company.

On 14 June 2017, a fire broke out at the Grenfell Tower block of flats in North Kensington in London causing 72 deaths. The Grenfell Tower Inquiry was created to examine the circumstances leading up to and surrounding the fire. Sir Martin Moore-Bick, the Chairman of the Public Inquiry, made clear in his Phase 1 Report that the fire was caused by the installation of a cladding system which did not meet the requirements of Building Regulations. Exova (UK) Limited provided fire safety advice to the Royal Borough of Kensington & Chelsea principally in 2012 and 2013 in the pre-tender phase of the proposed Grenfell Tower refurbishment. The cladding system, however, was chosen in a later stage in 2014, once the lead contractor had been appointed with overall responsibility for design, construction and compliance. Exova (UK) Limited was not part of the process of selecting the cladding nor was it responsible for designing, installing, or approving the system. Exova (UK) Limited is a core participant in the Grenfell Tower Public Inquiry and has and will fully support the inquiry as required.

#### **Directors**

The directors, who served during the financial period and to the date of this report were as follows:

William Winter

Rajesh Bhogaita

(Resigned 15 May 2019)

Robert Veitch

Gary Keenan

(Resigned 10 December 2020)

#### **Principal risks and uncertainties**

While risk cannot be eliminated altogether, actions are taken to mitigate risk wherever possible. As a matter of policy, the Company does not enter into speculative activities. The material business and operational risks that the Directors consider the Company to be exposed to include, but are not limited to, the following:

- Exchange rate risks: The Company continues to monitor the risks associated with the revaluation of investments and intercompany balances, and the impact that this has on the Statement of profit and loss and Statement of financial position. Monitoring activities include the assessment of cash requirements and loan arrangements in place and taking actions to move funds as appropriate.
- Operational performance of the companies from which the intercompany debt is due and the related uncertainties affecting the underlying investments: Management regularly review the cash flow forecasts and operational performance of the businesses from which the intercompany debt is due and the companies in which the underlying investments are held to ensure that no recoverability issues or indicators of impairment are present.

# **EXOVA (UK) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **Principal risks and uncertainties (continued)**

- COVID-19 (New): The nature and scale of any potential impact is dependent on the course of the disease, which cannot be predicted accurately at this time. The significant loss of life and impact on people's health is unprecedented. As an intermediary holding company, while COVID-19 does not directly impact operations, the Company holds investments in the wider trading group owned by the company's ultimate holding company, Element Materials Technology Group Limited ("Element"). The Element Group provides essential testing services to many customers across a range of diverse end markets. The general economic situation throughout the world is increasingly very challenging and many of the Element Group's customers are reducing production and other activities. However, most of the end markets these customers operate in have been deemed to be essential industries by the respective government bodies. We remain confident that the Company and its subsidiaries will continue to operate and be successful in the new environment and are actively managing our operations, the cost base and our cashflow on a daily basis as well as following guidance from the public health bodies and governments in the territories where we operate.
- Before ceasing trading on 1 December 2018, the Company provided testing, certification and consulting services. The Company is party to a number of legal actions and claims which have arisen in the ordinary course of its business. These matters relate to alleged quality and other service issues and could give rise to material legal claims and associated costs.

In accordance with its risk management guidelines, the Company raises awareness of business risks at all operational management levels and encourages all management teams to assess and minimise risk. The Company ensures the appropriate cover of all essential liability and claims risks.

The risks are monitored by the Directors on a continual basis

#### **Dividends**

The Directors do not recommend payment of an interim dividend (2018: £75,570,751), or a final dividend (2018: £nil).

#### **Going concern**

In line with the Financial Reporting Council's guidance on going concern issues in April 2016, the Directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis.

The financial statements of the company have been prepared on a going concern basis. The directors have a reasonable expectation that the company has access to adequate resources to continue in operational existence for the foreseeable future. The company has, as at 31 December 2019, a net asset position of £44,596,454 (2018: £46,336,450). The Company has cash and cash equivalent balances of £125,151 (2018: £302,329) and has no external loans or borrowings or complex financial instruments as at 31 December 2019 (2018: none). The Company generated a loss after tax of £1,739,996 in the year ended 31 December 2019 (2018: profit after tax of £19,645,042).

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company, Element Materials Technology Group Limited (Element). The directors have received confirmation that Element will support the company as necessary and has the ability to do so for 12 months from the date of signing of these financial statements. We note that the audit opinion within the Element consolidated financial statements for the year ended 31 December 2019 contained an emphasis of matter relating to COVID-19. The emphasis of matter draws attention to notes in the financial statements which describe the economic, operational and social disruption the Group is facing as a result of COVID-19, which had impacted customer demand and the closure of certain laboratories.

As the company holds intercompany loans with the wider trading group, it is ultimately dependent on the performance of the wider trading group owned by the company's ultimate holding company, Element Materials Technology Group Limited ("Element"), and group management's decisions on the flow of capital. The Directors have carried out a review, including consideration of appropriate forecasts and sensitivities, which indicates that the company, as a result of the financial support from Element will have adequate resources to continue for the foreseeable future.

The going concern assessment takes into account the Group's cash flow and available undrawn banking facilities. The analysis concluded that even after the downside scenarios modelled, the Group would have sufficient funds to trade and settle its liabilities as they fall due; the Group's going concern assessment has been carried out to 31 October 2022.

# **EXOVA (UK) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **Going concern (continued)**

The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities. As part of a regular assessment of the Group's working capital and financing position, the directors of the Group have prepared a detailed bottom-up trading budget and cash flow forecast for the period through to 31 October 2022.

The directors of the Group have chosen an eighteen-month period to assess going concern to reflect the characteristics of the Group's end markets and their contracting arrangements. These range from multi-year customer contracts to shorter-term orders. In considering going concern status, the directors have considered the principal risks and uncertainties discussed in the Directors' report and assessed the impact. The impact of COVID-19 on viability is clearly a consideration for all companies at this time. At the time of signing these accounts, all of the Element Group's facilities remain open with business continuity plans in place at every location.

In assessing the going concern status, the directors have considered:

- trading risks presented by the current economic conditions in the testing and certification market;
- the impact of macro-economic factors, particularly ability of key customers to continue trading;
- the status of the Group's existing credit arrangements;
- ability of the Group in developing and implementing cost reduction programmes and operational improvements;
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads, capital expenditure and restricting cash flows; and
- the long-term nature of the Group's business which, taken together with the Group's long-standing relationship with its customers, provides a satisfactory level of confidence to the Board in respect of trading.

In addition, the Group secured unrestricted access to its capex and acquisition ("ACF") facility in 2020 with no covenants, to draw down for general corporate purposes to October 2021, as well as continued use for capital expenditures and permitted acquisitions. The ACF facility is still then available from this date to June 2024 for capital expenditures and permitted acquisitions. The Group has a revolving credit facility ("RCF") of US \$100.0 million of which it has drawn down US \$34.0 million leaving the remaining undrawn balance of US \$53.0 million (excluding an undrawn US \$13.0 million letter of credit). The RCF facility has a leverage ratio covenant attached, however based on all of management's scenarios no additional draw down is required. At the date of signing these financial statements, the Group has access to US \$88.0 million undrawn ACF funds.

Given the nature of the business and its high variable cost base which allows management to control costs, in the most severe downside scenarios which management consider the possibility of occurring to be remote, Group management have concluded, there would still be adequate liquidity to trade, settle its liabilities as they fall due, and remain compliant with banking facilities.

#### **Events after the reporting date**

Whilst it is difficult to predict the full extent of the COVID-19 impact, management notes that events such as announcements or the enactment of new measures to contain the virus or decisions taken by management in respect of such measures are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Given the difficulty in quantifying the impact of COVID-19, it is inherently difficult to quantify the potential impact on the impairment of fair value assets. Due to the continued uncertainty caused by the pandemic, management have not been able to accurately quantify the potential impact of the COVID-19 on fair values; however, their best estimates indicate no material change from the statement of financial position date. Balances carried at their fair values are provided in note 1 of these financial statements and the following specific accounts in the financial statements: Amounts owed by group undertakings (note 17) and Trade and other receivables (note 17).

Note 14 includes impairment of the right of use asset for the lease of Unit 4, ABZ Business Park, Dyce, Aberdeen AB21 0BH. During 2020, a sub-tenant began to pay the Company for use of this property. The sub-tenant's lease commitment will enable to the Company to reverse the impairment in relation to this property during FY2020.

#### **Future developments**

The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

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# EXOVA (UK) LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Directors' Insurance and indemnities**

As permitted by the Companies Act 2006, Element Materials Technology Group Limited purchases and maintains Directors' and Officers' insurance cover against certain legal liabilities and costs incurred by the Directors and Officers of the companies within the Group, in the performance of their duties. The Company has also granted an indemnity to each of its Directors in relation to the Directors' exercise of their powers, duties and responsibilities as Directors of the Company, the terms of which are in the Companies Act 2006.


### **Disclosure of information to auditors**

Each of the persons who are Directors at the time when this Directors' Report was approved has confirmed that:

- so far as that Director is aware, there is no relevant material audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

Approved by the Board and signed on its behalf by:



William Winter

Director

Date: 28 April 2021

# **EXOVA (UK) LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

***FOR THE YEAR ENDED 31 DECEMBER 2019***

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

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

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



# **INDEPENDENT AUDITOR'S REPORT**

## **TO THE MEMBERS OF EXOVA (UK) LIMITED**

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### **Opinion**

We have audited the financial statements of Exova (UK) Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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**

We draw attention to notes 1 and 25 in the financial statements, which describe the economic, operational and social disruption the entity is facing as a result of COVID-19, which is impacting customer demand. 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.

### **Other information**

The other information comprises the information included in the Directors' report set out on page 1 to 4, 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF EXOVA (UK) LIMITED**

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

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

We have nothing to report in respect of the following matters where 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**  
**TO THE MEMBERS OF EXOVA (UK) LIMITED**

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**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.

*Ernst & Young LLP*

**Christine Chua (Senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
**London**

**29 April 2021**

**EXOVA (UK) LIMITED****STATEMENT OF PROFIT OR LOSS****FOR THE YEAR ENDED 31 DECEMBER 2019**

|  |              | <b>2019</b> | <b>2018</b>  |
|--|--------------|-------------|--------------|
|  | <b>Notes</b> | <b>£</b>    | <b>£</b>     |
| <b>Revenue</b>   | <b>3</b>     | 67,775      | 80,280,555   |
| Net operating costs  |              | (119,286)   | (63,484,650) |
| <b>Operating (loss) / profit</b>                                   | <b>4</b>     | (51,511)    | 16,795,905   |
| Administrative expenses  |              | (1,058,839) | -            |
| Investment income  | <b>11</b>    | -           | 16,170,403   |
| Separately disclosed items   | <b>5</b>     | -           | (11,881,510) |
| Finance income   | <b>8</b>     | 1,019,695   | 814,929      |
| Finance costs  | <b>9</b>     | (1,565,045) | (2,332,492)  |
| <b>(Loss)/profit before taxation</b>                               |              | (1,655,700) | 19,567,235   |
| Tax on (loss)/profit   | <b>10</b>    | (84,296)    | 77,807       |
| <b>(Loss)/profit for the financial year</b>                        |              | (1,739,996) | 19,645,042   |
| <b>Other comprehensive income:</b>                                 |              |             |              |
| <b>Items that will not be reclassified to profit or loss</b>       |              |             |              |
| Actuarial gain on defined benefit pension schemes                  |              | -           | 2,370,265    |
| Income tax effect  |              | -           | (404,088)    |
| <b>Total items that will not be reclassified to profit or loss</b> |              | -           | 1,966,177    |
| <b>Total other comprehensive income for the year</b>               |              | -           | 1,966,177    |
| <b>Total comprehensive (loss) / income for the year</b>            |              | (1,739,996) | 21,611,219   |

The 2019 results are as a result of current holding company activities of the Company. The 2018 results relate principally to testing activities that ceased in this entity due to the restructure in 2018, as detailed in the Directors' report.

The accompanying notes are an integral part of these financial statements.

# EXOVA (UK) LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

|  |       | 2019              | Restated<br>(note 1.19)<br>2018 |
|--|-------|-------------------|---------------------------------|
|  | Notes | £                 | £                               |
| <b>Non-current assets</b>                    |       |                   |                                 |
| Intangible assets                            | 12    | -                 | 14,884                          |
| Property, plant and equipment                | 13    | 1,046,855         | 1,329,418                       |
| Right of use assets                          | 14    | 192,660           | 7,514,967                       |
| Amounts owed by group undertakings           | 17    | 53,120,071        | 46,287,274                      |
| Investments                                  | 15    | 9,135,973         | 9,135,973                       |
| Deferred tax asset                           | 20    | 472,927           | 1,335,968                       |
|  |       | <u>63,968,486</u> | <u>65,618,484</u>               |
| <b>Current assets</b>                        |       |                   |                                 |
| Trade and other receivables                  | 17    | 16,929,806        | 25,119,052                      |
| Cash and cash equivalents                    | 18    | 125,151           | 302,329                         |
|  |       | <u>17,054,957</u> | <u>25,421,381</u>               |
| <b>Current liabilities</b>                   |       |                   |                                 |
| Trade and other payables                     | 19    | 6,361,040         | 8,393,548                       |
| Lease liabilities                            | 14    | 433,884           | 1,270,261                       |
| Provisions                                   | 21    | 490,114           | 654,472                         |
|  |       | <u>7,285,038</u>  | <u>10,318,281</u>               |
| <b>Net current assets</b>                    |       | <u>9,769,919</u>  | <u>15,103,100</u>               |
| <b>Total assets less current liabilities</b> |       | <u>73,738,405</u> | <u>80,721,584</u>               |
| <b>Non-current liabilities</b>               |       |                   |                                 |
| Amounts owed to group undertakings           | 19    | 23,920,057        | 23,144,144                      |
| Lease liabilities                            | 14    | 2,045,591         | 9,537,026                       |
| Provisions                                   | 21    | 3,176,303         | 1,703,964                       |
|  |       | <u>29,141,951</u> | <u>34,385,134</u>               |
| <b>Net assets</b>                            |       | <u>44,596,454</u> | <u>46,336,450</u>               |

# EXOVA (UK) LIMITED

## STATEMENT OF FINANCIAL POSITION (CONTINUED)


AS AT 31 DECEMBER 2019

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|                         | Notes | 2019<br>£         | Restated<br>(note 1.19)<br>2018<br>£ |
|-------------------------|-------|-------------------|--------------------------------------|
| <b>Equity</b>           |       |                   |                                      |
| Called up share capital | 24    | 10,000            | 10,000                               |
| Retained earnings       |       | 44,586,454        | 46,326,450                           |
| <b>Total equity</b>     |       | <u>44,596,454</u> | <u>46,336,450</u>                    |

The accompanying notes are an integral part of these financial statements.

The financial statements of Exova (UK) Limited (registered number SC070429) were approved by the Board of Directors and authorised for issue and were signed on its behalf by:



William Winter

Director

Date: 29 April 2021

Company Registration No. SC070429

# EXOVA (UK) LIMITED

## STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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|  | Notes | Share<br>capital<br>£ | Retained<br>earnings<br>£ | Total<br>£   |
|--|-------|-----------------------|---------------------------|--------------|
| <b>Balance at 1 January 2018</b>                 |       | 10,000                | 100,285,982               | 100,295,982  |
| <hr/>  |       |                       |                           |              |
| <b>Year ended 31 December 2018:</b>              |       |                       |                           |              |
| Profit for the year                              |       | -                     | 19,645,042                | 19,645,042   |
| Other comprehensive income                       |       | -                     | 1,966,177                 | 1,966,177    |
| Dividends  |       | -                     | (75,570,751)              | (75,570,751) |
| <hr/>  |       |                       |                           |              |
| <b>Balance at 31 December 2018</b>               |       | 10,000                | 46,326,450                | 46,336,450   |
| <hr/>  |       |                       |                           |              |
| <b>Year ended 31 December 2019:</b>              |       |                       |                           |              |
| Loss and total comprehensive income for the year |       | -                     | (1,739,996)               | (1,739,996)  |
| <hr/>  |       |                       |                           |              |
| <b>Balance at 31 December 2019</b>               |       | 10,000                | 44,586,454                | 44,596,454   |

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# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

##### Company information

Exova UK Limited is a private limited Company incorporated in Scotland, is domiciled in the UK and its registered office is Lochend Industrial Estate, Queen Anne Drive, Newbridge, United Kingdom, EH2 8LP.

The principal activity of the Company is as detailed in the Director's report on page 1.

##### 1.1 Accounting convention

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 Reduced Disclosure (FRS 101) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 and the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As permitted by Section 400 of the Companies Act 2006, consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Exova Group (UK) Limited. The parent company of the smallest group of which the Company is a member and for which group financial statements are prepared is Element Materials Technology Limited. The group financial statements of Element Materials Technology Limited are available to the public and can be obtained as set out in Note 27.

The accounting policies have been consistently applied throughout the current and prior year.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 10(d), and 134-136 of IAS 1 Presentation of Financial statements;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and,
  - paragraph 118(e) of IAS 38 Intangible Assets.
- the requirement of paragraph 40A of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 91 - 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective; and
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosure, and the requirements of IAS 24 Related Party Disclosure to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Where required, equivalent disclosures are given in the group financial statements of Element Materials Technology Limited.

##### 1.2 Going concern

In line with the Financial Reporting Council's guidance on going concern issues in April 2016, the Directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis.



# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies (continued)

##### 1.2 Going concern (continued)

The financial statements of the company have been prepared on a going concern basis. The directors have a reasonable expectation that the company has access to adequate resources to continue in operational existence for the foreseeable future. The company has, as at 31 December 2019, a net asset position of £44,596,454 (2018: £46,336,450). The Company has cash and cash equivalent balances of £125,151 (2018: £302,329) and has no external loans or borrowings or complex financial instruments as at 31 December 2019 (2018: none). The Company generated a loss after tax of £1,739,996 in the year ended 31 December 2019 (2018: profit after tax of £19,645,042).

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company, Element Materials Technology Group Limited (Element). The directors have received confirmation that Element will support the company as necessary and has the ability to do so for 12 months from the date of signing of the accounts. We note that the audit opinion within the Element consolidated financial statements for the year ended 31 December 2019 contained an emphasis of matter relating to COVID-19. The emphasis of matter draws attention to notes in the financial statements which describe the economic, operational and social disruption the Group is facing as a result of COVID-19, which had impacted customer demand and the closure of certain laboratories.

As the company holds intercompany loans with the wider trading group, it is ultimately dependent on the performance of the wider trading group owned by the company's ultimate holding company, Element Materials Technology Group Limited ("Element"), and group management's decisions on the flow of capital. The Directors have carried out a review, including consideration of appropriate forecasts and sensitivities, which indicates that the company, as a result of the financial support from Element will have adequate resources to continue for the foreseeable future.

The going concern assessment takes into account the Group's cash flow and available undrawn banking facilities. The analysis concluded that even after the downside scenarios modelled, the Group would have sufficient funds to trade and settle its liabilities as they fall due, the going concern assessment has been carried out to 31 October 2022.

The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities. As part of a regular assessment of the Group's working capital and financing position, the directors have prepared a detailed bottom-up trading budget and cash flow forecast for the period through to 31 October 2022.

The directors have chosen an eighteen-month period to assess going concern to reflect the characteristics of the Group's end markets and their contracting arrangements. These range from multi-year customer contracts to shorter-term orders. In considering going concern status, the directors have considered the principal risks and uncertainties discussed in the Directors' report and assessed the impact. The impact of COVID-19 on viability is clearly a consideration for all companies at this time. At the time of signing these accounts, all of the Element Group's facilities remain open with business continuity plans in place at every location.

In assessing the going concern status, the directors have considered:

- trading risks presented by the current economic conditions in the testing and certification market;
- the impact of macro-economic factors, particularly ability of key customers to continue trading;
- the status of the Group's existing credit arrangements;
- ability of the Group in developing and implementing cost reduction programmes and operational improvements;
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads, capital expenditure and restricting cash flows; and
- the long-term nature of the Group's business which, taken together with the Group's long-standing relationship with its customers, provides a satisfactory level of confidence to the Board in respect of trading.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies (continued)

##### 1.2 Going concern (continued)

In addition, the Group secured unrestricted access to its capex and acquisition ("ACF") facility in 2020 with no covenants, to draw down for general corporate purposes to October 2021, as well as continued use for capital expenditures and permitted acquisitions. The ACF facility is still then available from this date to June 2024 for capital expenditures and permitted acquisitions. The Group has a revolving credit facility ("RCF") of US \$100.0 million of which it has drawn down US \$34.0 million leaving the remaining undrawn balance of US \$53.0 million (excluding an undrawn US \$13.0 million letter of credit). The RCF facility has a leverage ratio covenant attached, however based on all of management's scenarios no additional draw down is required. At the date of signing these financial statements, the Group has access to US \$88.0 million undrawn ACF funds.

Given the nature of the business and its high variable cost base which allows management to control costs, in the most severe downside scenarios which management consider the possibility of occurring to be remote, Group management have concluded, there would still be adequate liquidity to trade, settle its liabilities as they fall due, and remain compliant with banking facilities.

##### 1.3 Revenue

The Company recognises revenue from the rendering of materials and product qualification testing, inspection, certification, calibration and advisory services pursuant to written contracts with its customers. These services are recognised through the output method of revenue recognition as the performance obligations are satisfied over time. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, VAT and other sales-related taxes.

Revenue is reduced for estimated and agreed liquidated damages resulting from failure to meet the agreed service performance levels set out in the contract. For short term contracts with single performance obligations, customers are billed in accordance with the contractual terms and revenue is recognised as the performance obligations are satisfied.

Revenue from short-term contracts is generally recognised when the relevant service is completed, that is when the report of findings or test/inspection certificate is issued. Short-term contracts are considered to be those that are between one to two months' duration.

The Company recognises revenue on long term contracts with multiple performance obligations as each performance obligation is satisfied, with the corresponding amount being included in trade receivables if the customer has been invoiced and the amount is unconditional, or as a contract asset, if billing has yet to be completed. Performance obligations vary across business lines and regions, and on a contract-by-contract basis. Long term contract durations vary from three months to multiple years.

##### 1.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment. The cost of property, plant and equipment is the purchase cost, together with any directly attributable costs.

Depreciation is provided on all property, plant and equipment other than land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

|                        |   |
|------------------------|---|
| Buildings              | 2% - 5%                                   |
| Leasehold improvements | Lower of useful life or contractual lease |
| Plant and machinery    | 33%                                       |

Assets under the course of construction are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets is determined on its asset category and commences when the assets are completed and ready for their intended use.

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of profit or loss.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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

#### **1.5 Investments in subsidiaries**

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment

#### **1.6 Provisions**

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The best estimate of the consideration required to settle the present obligation at the end of the reporting period is measured by considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows when the effect of the time value of money is material.

A restructuring provision is recognised when the Company has developed a detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily entailed by the restructuring and not associated with the on-going activities of the Company.

#### **1.7 Cash and cash equivalents**

Cash and cash equivalents are comprised of cash at bank and in hand. The Company considers demand deposits with original maturities at inception of less than three months and other short-term highly liquid investments (that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in values) to be cash equivalents.

#### **1.8 Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance. The Company applies IFRS 9 to measure expected credit losses which uses a lifetime expected loss allowance (ECL) for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts.

#### **1.9 Amounts owed by group undertakings**

Amounts owed by group undertakings are carried by the Company and the Group at original invoice amount less any allowance for any non-collectable or impaired amounts if applicable. Amounts owed by group undertakings falling due after more than one year are loans from Group companies which are either interest free or bear interest of 3-month base rate of the source currency of the loan plus nil - 4% and have no fixed repayment date.

Any interest-bearing loans are recorded at the proceeds received, net of direct issue costs.

The entity uses the IFRS 9 ECL model to measure loss allowances at an amount equal to their lifetime expected credit loss.

#### **1.10 Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **1.11 Amounts owed to group undertakings**

Amounts owed to group undertakings are recognised initially at fair value and subsequently measured at amortised cost where applicable, using the effective interest method. Amounts owed to group undertakings due after more than one year are loans to Group companies which are either interest free or bear interest of 3-month base rate of the source currency of the loan plus nil - 4% and have no fixed repayment date.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies (continued)

##### 1.12 Separately disclosed items

In order to present the performance of the Company in a clear, consistent and comparable format, certain items are disclosed separately on the face of the statement of profit or loss. Separately disclosed items are items which by their nature or size, in the opinion of the Directors, should be excluded from the other lines in the statement of profit or loss to provide readers with a clear and consistent view of the business performance of the Company. The Directors define separately disclosed items as those expense and income items which fall into one or both of following categories:

1. A transaction that results from a corporate activity that has neither a close relationship to our businesses' operations nor any associated operational cash flows (for example, costs incurred in connection with a refinancing activity).
2. A transaction is of such material in size and nature that it would obscure an understanding of underlying outcomes and trends in revenues, costs or other components of performance (for example, restructuring activities and reversals of any provisions for the costs of restructuring).

##### 1.12 Taxation

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

###### **Current tax**

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the Statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is measured at the effective tax rate.

###### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

###### **Current and deferred tax for the year**

Current and deferred tax are recognised in the Statement of profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies (continued)

##### 1.13 Lease accounting

The Company holds leases on assets used in the ordinary course of business. The Company recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified asset for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

All leases where the Company is the lessee (except for low-value lease arrangements) are recognised in the statement of financial position. A lease liability is recognised based on the present value of the future lease payments, and a corresponding right-of-use asset is recognised. The right-of-use asset is depreciated over the shorter of the lease term or the useful life of the asset. Lease payments are apportioned between finance charges and a reduction of the lease liability.

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and,
- any initial direct costs incurred by the lessee.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

The Company depreciates the right-of-use asset from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

- fixed payments, less any lease incentives receivable; and
- variable lease payments that depend on a fixed rate, as at the commencement date.

The leases held by the Company are split into two categories: property and non-property. The Company leases various properties, principally offices and laboratories, which have varying terms and renewal rights that are typical to the territory in which they are located. Non-property includes all other leases, such as motor vehicles, printers and other small office equipment.

Variable lease payments not included in the initial measurement of the lease liability are recognised in the statement of profit or loss as they arise.

The lease payments are discounted using the incremental borrowing rate at the commencement of the lease contract or modification. Generally, it is not possible to determine the interest rate implicit in the land and building leases. The incremental borrowing rate is estimated taking account of the economic environment of the lease, the currency of the lease and the lease term. The lease term determined by the Company comprises:

- non-cancellable period of lease contracts;
- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

After the commencement date the Company measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The right-of-use asset and lease liability balances are calculated with reference to the underlying functional currency.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies (continued)

##### 1.14 Employee benefit plans

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

In the prior year, the Company defined benefit pension scheme was transferred to Warringtonfire Testing and Certification Limited.

##### 1.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the Statement of financial position date. Differences arising on translation are charged or credited to the Statement of profit or loss.

##### 1.16 Finance costs

Finance costs comprise interest expenses and foreign exchange losses. Finance costs are recognised in profit or loss using the effective interest rate method.

##### 1.17 Finance income

Finance income consists of interest income. Interest income is recognised when it is probable that the economic benefits will flow through to the Company and the amount of income receivable can be reliably measured. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

##### 1.18 Adoption of new and revised accounting standards

###### Standards and amendments effective for the year

The Company has adopted all the new and revised Standards and interpretations issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods covered by the financial statements. The adoption of these standards and interpretations does not have an impact on the financial statements of the Company:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures
- AIP (2015-2017 Cycle): IFRS 3 Business Combinations
- AIP (2015-2017 Cycle): IFRS 11 Joint Arrangements
- AIP (2015-2017 Cycle): IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- AIP (2015-2017 Cycle): IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

###### Standards, amendments and interpretations not yet effective

A number of amendments and interpretations have been issued that are not expected to have any material impact on the accounting policies and reporting. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

##### 1.19 Prior Year Restatements

The comparative figures in the Statement of financial position have been restated to reflect a re-classification of amounts owed from group entities (£24.9m) and amounts owed to group entities (£6.1m) from non-current to current. This restatement has no impact on the Statement of profit or loss or the Statement of changes in equity.

# **EXOVA (UK) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **2 Critical accounting estimates and judgements**

In the application of the Company's accounting policies which are described in note 1 the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### **2.1 Critical accounting judgements**

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

##### **Impairment of investments in subsidiaries**

Critical judgement is applied when determining whether there are indicators of impairment in relation to investments in subsidiaries. The directors compare the carrying value of the investment with the underlying performance of the subsidiaries to identify any indicators of impairment.

#### **2.2 Key sources of estimation**

##### **Taxation**

At the balance sheet date tax liabilities and assets are based on management's best estimate of the future amounts that will be settled. While the Company aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

The Company recognises deferred income tax assets for deductible temporary differences and tax loss carry forwards to the extent that it deems probable such assets will be recovered in the future. Further detail provided in note 10.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 Revenue

Analysis of revenue by geography:

|                | 2019          | 2018              |
|----------------|---------------|-------------------|
|                | £             | £                 |
| UK             | 42,784        | 63,156,408        |
| Rest of Europe | 24,991        | 10,061,672        |
| Rest of World  | -             | 7,062,475         |
|                | <u>67,775</u> | <u>80,280,555</u> |

Set out below is the amount of revenue recognised from:

|   | 2019     | 2018             |
|---|----------|------------------|
|   | £        | £                |
| Amounts included in contract liabilities at the beginning of the year | <u>-</u> | <u>3,045,033</u> |

The table below represents uncompleted performance obligations at the end of the reporting period. This is total revenue which is contractually due to the Company, subject to the performance of the obligations of the Company related to these revenues.

|  | 2019     | 2018         |
|--|----------|--------------|
|  | £        | £            |
| Amounts included in contract assets at the end of the year | <u>-</u> | <u>16540</u> |

Revenue represents the amounts derived from the provision of goods and services which fall within the Company's ordinary activities, stated net of tax.

### 4 Operating (loss)/profit

|  | 2019           | 2018             |
|--|----------------|------------------|
|  | £              | £                |
| Operating (loss)/profit for the year is stated after charging: |                |                  |
| Amortisation of intangible assets (note 12)                    | 1,063          | 304,553          |
| Depreciation of property, plant and equipment (note 13)        | 61,109         | 3,141,163        |
| Depreciation of ROU assets (note 14)                           | <u>306,712</u> | <u>1,511,542</u> |

### 5 Separately disclosed items

|   | 2019     | 2018              |
|---|----------|-------------------|
|   | £        | £                 |
| Integration costs                                 | -        | 1,469,539         |
| Impairment of investments in subsidiary companies | -        | 8,755,402         |
| Restructuring costs                               | <u>-</u> | <u>1,656,569</u>  |
|   | <u>-</u> | <u>11,881,510</u> |

Separately disclosed items are items which by their nature or size, in the opinion of the Directors, should be disclosed separately in the Statement of profit or loss to provide readers with a clear and consistent view of the

In the prior year, restructuring costs represent staff redundancy costs related to rationalisation and restructuring of certain laboratories and administrative departments.



# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 6 Auditor's remuneration

Fees payable to Ernst & Young LLP for the audit of the Company were borne by other companies within the Group and disclosed in the consolidated financial statements of Element Materials Technology Group Limited, the ultimate parent. Fees payable in the prior year were also borne by other companies within the Group.

There were no non-audit services provided to the Company during the year (2018: £ nil).

#### 7 Employees and directors

##### Employees

The average monthly number of persons (including executive directors) employed by the Company during the period was:

|                             | 2019     | 2018       |
|-----------------------------|----------|------------|
| Production and distribution | -        | 729        |
| Administration              | -        | 186        |
|                             | <u>-</u> | <u>915</u> |

|                       | 2019          | 2018              |
|-----------------------|---------------|-------------------|
|                       | £             | £                 |
| Wages and salaries    | 15,918        | 27,574,636        |
| Social security costs | 1,673         | 2,822,822         |
| Pension costs         | 955           | 1,078,590         |
|                       | <u>18,546</u> | <u>31,476,048</u> |

| Directors | 2019 | 2018 |
|-----------|------|------|
|           | £    | £    |

##### Directors' remuneration

|                      |          |                |
|----------------------|----------|----------------|
| Aggregate emoluments | <u>-</u> | <u>451,017</u> |
|----------------------|----------|----------------|

##### Highest paid Director remuneration

|                      |          |                |
|----------------------|----------|----------------|
| Aggregate emoluments | <u>-</u> | <u>234,514</u> |
|----------------------|----------|----------------|

The employment benefits of directors were:

|                                |          |          |
|--------------------------------|----------|----------|
| Short term employment benefits | <u>-</u> | <u>-</u> |
|--------------------------------|----------|----------|

Throughout 2019, all the emoluments of the Directors were paid by a fellow group undertaking on behalf of the ultimate parent company Element Materials Technology Group Limited, which makes no recharge to the company (2018: the emoluments of two directors were paid by the Company). Where Directors are also Directors of several other subsidiaries of Element Materials Technology Group Limited it is not possible to make an accurate apportionment of Directors in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of these Directors.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 8 Finance income

|  | 2019<br>£ | 2018<br>£ |
|--|-----------|-----------|
| Interest receivable on loans to Group undertakings | 1,019,695 | 814,929   |

### 9 Finance costs

|                                       | 2019<br>£        | 2018<br>£        |
|---------------------------------------|------------------|------------------|
| Other interest payable                | 1,296,636        | 1,496,702        |
| Interest expense on lease liabilities | 268,409          | 835,790          |
|                                       | <u>1,565,045</u> | <u>2,332,492</u> |

### 10 Income tax expense

|                             | 2019<br>£        | 2018<br>£        |
|-----------------------------|------------------|------------------|
| <b>Current tax</b>          |                  |                  |
| Prior year movement         | (372,812)        | 50,697           |
|                             | <u>(372,812)</u> | <u>50,697</u>    |
| <b>Deferred tax</b>         |                  |                  |
| Current year movement       | 376,133          | (381,991)        |
| Prior year movement         | 52,609           | 182,667          |
|                             | <u>428,742</u>   | <u>(199,324)</u> |
| Withholding tax written off | 28,366           | 70,820           |
|                             | <u>84,296</u>    | <u>(77,807)</u>  |

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

|   | 2019<br>£     | 2018<br>£       |
|---|---------------|-----------------|
| (Loss)/profit before taxation                                       | (1,655,700)   | 19,567,235      |
| Expected tax (credit)/charge based on a corporation tax rate of 19% | (314,583)     | 3,717,775       |
| Non-taxable dividend income   | -             | (3,100,000)     |
| Group relief claimed / (surrendered) for nil consideration          | 730,505       | (2,664,488)     |
| Withholding tax written off   | 28,366        | 70,820          |
| Corporation tax prior year adjustment                               | (372,812)     | 50,697          |
| Deferred tax prior year adjustment                                  | 52,609        | 182,667         |
| Difference in rate on deferred tax                                  | (44,251)      | -               |
| Expenses not deductible for tax purposes                            | 4,462         | 1,664,722       |
|   | <u>84,296</u> | <u>(77,807)</u> |
| <b>Taxation charge/(credit) for the year</b>                        | <u>84,296</u> | <u>(77,807)</u> |

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 10 Income tax expense (continued)

At the Statement of financial position date, the Company had an unrecognised deferred tax asset of £nil (2018: £nil).

A UK budget resolution was substantively enacted on 17 March 2020, cancelling the previously enacted UK corporation tax reduction to 17%, which had been due to be introduced on 1 April 2020. Deferred tax balances within the accounts have therefore been calculated using a corporation tax rate of 17%, as this was the relevant rate at 31st December 2019. The impact of the change would be to decrease the tax charge by £53,748.

| 11 Dividends       | 2019<br>£ | 2018<br>£  |
|--------------------|-----------|------------|
| Dividends received | -         | 16,170,403 |

#### 12 Intangible assets

|                        | Software<br>£ |
|------------------------|---------------|
| <b>Cost</b>            |               |
| At 31 December 2018    | 45,663        |
| Disposals              | (21,263)      |
| At 31 December 2019    | 24,400        |
| <b>Amortisation</b>    |               |
| At 31 December 2018    | 30,779        |
| Charge for the year    | 1,063         |
| Eliminated on disposal | (7,442)       |
| At 31 December 2019    | 24,400        |
| <b>Carrying amount</b> |               |
| At 31 December 2019    | -             |
| At 31 December 2018    | 14,884        |

**EXOVA (UK) LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****13 Property, plant and equipment**

|  | <b>Buildings</b> | <b>Plant and equipment</b> | <b>Total</b> |
|--|------------------|----------------------------|--------------|
|  | <b>£</b>         | <b>£</b>                   | <b>£</b>     |
| <b>Cost</b>                                    |                  |                            |              |
| At 31 December 2018                            | 2,078,331        | 1,474,918                  | 3,553,249    |
| Disposals                                      | -                | (479,818)                  | (479,818)    |
| At 31 December 2019                            | 2,078,331        | 995,100                    | 3,073,431    |
| <b>Accumulated depreciation and impairment</b> |                  |                            |              |
| At 31 December 2018                            | 983,383          | 1,240,448                  | 2,233,831    |
| Charge for the year                            | 48,093           | 13,016                     | 61,109       |
| Eliminated on disposal                         | -                | (258,364)                  | (258,364)    |
| At 31 December 2019                            | 1,031,476        | 995,100                    | 2,026,576    |
| <b>Carrying amount</b>                         |                  |                            |              |
| At 31 December 2019                            | 1,046,855        | -                          | 1,046,855    |
| At 31 December 2018                            | 1,094,948        | 234,470                    | 1,329,418    |

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Lease arrangements

#### Right of use assets

|                                 | Property<br>£ | Vehicles<br>£ | Total<br>£  |
|---------------------------------|---------------|---------------|-------------|
| <b>Cost</b>                     |               |               |             |
| As at 1 January 2018            | 15,956,194    | 1,428,023     | 17,384,217  |
| Additions                       | 343,171       | 159,085       | 502,256     |
| Expiry                          | -             | (286,009)     | (286,009)   |
| Transfers                       | (435,682)     | (1,301,099)   | (1,736,781) |
| At 31 December 2018             | 15,863,683    | -             | 15,863,683  |
| Additions                       | 432,643       | -             | 432,643     |
| Expiry                          | (5,455,213)   | -             | (5,455,213) |
| Transfers                       | (7,977,015)   | -             | (7,977,015) |
| At 31 December 2019             | 2,864,098     | -             | 2,864,098   |
| <b>Accumulated depreciation</b> |               |               |             |
| As at 1 January 2018            | 7,229,457     | 549,797       | 7,779,254   |
| Charge for the period           | 1,052,529     | 459,013       | 1,511,542   |
| Expiry                          | -             | (286,009)     | (286,009)   |
| Impairment                      | 136,731       | -             | 136,731     |
| Transfers                       | (70,001)      | (722,801)     | (792,802)   |
| At 31 December 2018             | 8,348,716     | -             | 8,348,716   |
| Charge for the year             | 306,712       | -             | 306,712     |
| Expiry                          | (826,350)     | -             | (826,350)   |
| Impairment                      | 1,965,290     | -             | 1,965,290   |
| Transfers                       | (7,122,930)   | -             | (7,122,930) |
| At 31 December 2019             | 2,671,438     | -             | 2,671,438   |
| <b>Net book value</b>           |               |               |             |
| At 31 December 2019             | 192,660       | -             | 192,660     |
| At 31 December 2018             | 7,514,967     | -             | 7,514,967   |

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Lease arrangements (continued)

#### Lease liabilities

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

|          | 2019<br>£      | Current<br>2018<br>£ | 2019<br>£        | Non-current<br>2018<br>£ |
|----------|----------------|----------------------|------------------|--------------------------|
| Property | 433,884        | 1,270,261            | 2,045,591        | 9,537,026                |
| Vehicles | -              | -                    | -                | -                        |
|          | <u>433,884</u> | <u>1,270,261</u>     | <u>2,045,591</u> | <u>9,537,026</u>         |
|          | Within 1 year  | 2-5 years            | 5+ years         | Total                    |
| Property | 433,884        | 2,045,591            | -                | 2,479,475                |
| Vehicles | -              | -                    | -                | -                        |
| Total    | <u>433,884</u> | <u>2,045,591</u>     | <u>-</u>         | <u>2,479,475</u>         |

#### Interest expense

Interest expense on the lease liabilities recognised within finance costs was £268,409 (2018: £835,790).

### 15 Investments

|  | 2019<br>£        | 2018<br>£        |
|--|------------------|------------------|
| At 1 January                                   | 9,135,973        | 21,758,694       |
| Investments resulting from Company restructure | -                | 93,895,758       |
| Contributions to subsidiaries                  | -                | (22,125,458)     |
| Dividend in specie                             | -                | (75,570,750)     |
| Impairment after dividend distribution         | -                | (8,822,271)      |
| At 31 December                                 | <u>9,135,973</u> | <u>9,135,973</u> |

As at 31 December 2019, the directors of the Company consider there to be no indicators of impairment in relation to the investments held. Details of the subsidiaries are set out in note 16.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 16 Subsidiaries

A list of the investments in subsidiaries and joint ventures, including the name, registered office, country of incorporation and proportion of ownership interest is given below.

| Subsidiary undertakings                                     | Registered office                                     | Country of Incorporation | Principal activity | Percentage holding (%) |
|---|---|--------------------------|--------------------|------------------------|
| Metallurgical Services Private Limited                      | Mehta House, Ashok Silk Mills Lane, Khatkopar (West), | India                    | Testing            | 100                    |
| Warringtonfire Doha LLC (formerly Exova Warringtonfire LLC) | P.O. Box 24863, Doha                                  | Qatar                    | Testing            | 49                     |

### 17 Trade and other receivables

|                                    | 2019<br>£         | Restated<br>(note 1.19)<br>2018<br>£ |
|------------------------------------|-------------------|--------------------------------------|
| Trade receivables                  | 67,369            | 8,448                                |
| Prepayments and other receivables  | 166,339           | 80,857                               |
| Amounts owed by group undertakings | 16,696,098        | 25,013,207                           |
| Contract assets                    | -                 | 16,540                               |
|                                    | <u>16,929,806</u> | <u>25,119,052</u>                    |

No trade receivables fall due after more than one year. Amounts owed by group undertakings falling due within one year are loans to Group companies which are interest free and repayable on demand. Trade receivables are stated after expected credit loss of £1,092 (2018: £nil). The total closing trade receivables and contract asset balances relate to contracts with customers.

The Company measures the loss allowance for trade receivables and all amounts from related parties at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

### Non-current assets

|                                    | 2019<br>£         | Restated<br>(note 1.19)<br>2018<br>£ |
|------------------------------------|-------------------|--------------------------------------|
| Amounts owed by group undertakings | <u>53,120,071</u> | <u>46,287,274</u>                    |

Amounts owed by group undertakings falling due after more than one year are loans to Group companies. The loans are interest bearing and have no fixed repayment date. A list of the counterparties and the interest rates applicable to each loan is below.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 17 Trade and other receivables (continued)

| Legal entity name                                   | Interest rate               | 2019<br>£         | 2018<br>£         |
|---|-----------------------------|-------------------|-------------------|
| Exova Treasury Limited                              | 3m CAD LIBOR no margin      | 9,502,197         | 9,579,385         |
| Element Materials Technology Singapore Pte. Limited | 3m SIBOR plus 4% margin     | 11,852,370        | 6,134,617         |
| MTS Pendar Limited                                  | 3m GBP LIBOR plus 4% margin | 2,006,151         | 1,752,547         |
| Exova Treasury Limited                              | 3m GBP LIBOR no margin      | 12,253,564        | 10,529,723        |
| Exova Treasury Limited                              | 3m AUD BBSW no margin       | 1,108,188         | 1,136,706         |
| Exova Treasury Limited                              | 3m EURIBOR no margin        | 11,941,808        | 12,601,697        |
| Exova Treasury Limited                              | 3m USD LIBOR no margin      | 4,455,793         | 4,552,599         |
|   |                             | <u>53,120,071</u> | <u>46,287,274</u> |

### 18 Cash and cash equivalents

|  | 2019<br>£      | 2018<br>£      |
|--|----------------|----------------|
| Cash at bank denominated in GBP              | 74,919         | 228,250        |
| Cash at bank denominated in foreign currency | 50,232         | 74,079         |
|  | <u>125,151</u> | <u>302,329</u> |

### 19 Trade and other payables

|                                    | 2019<br>£        | Restated<br>(note 1.19)<br>2018<br>£ |
|------------------------------------|------------------|--------------------------------------|
| Trade payables                     | 168,746          | 926,821                              |
| Accruals and other payables        | 2,705            | 569,571                              |
| Amounts owed to group undertakings | 6,147,478        | 6,645,168                            |
| Taxation and social security       | 42,111           | 251,988                              |
|                                    | <u>6,361,040</u> | <u>8,393,548</u>                     |

Amounts owed to group undertakings falling due within one year are loans from Group companies which are interest free and repayable on demand.

#### Non-current liabilities

|                                    | 2019<br>£         | Restated<br>(note 1.19)<br>2018<br>£ |
|------------------------------------|-------------------|--------------------------------------|
| Amounts owed to group undertakings | <u>23,920,057</u> | <u>23,144,144</u>                    |

Amounts owed to group undertakings falling due after more than one year are loans from Group companies: £12,183,570 (2018: £11,747,208) loaned from Exova Treasury Limited (bearing interest at 3m SIBOR plus 4% margin per annum) and £11,736,487 (2018: £11,396,936) loaned from Element Materials Technology Canada Inc. (which bears interest at the CAD PLOI rate). The loans have no fixed repayment date.



# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 20 Deferred taxation

|                                   | Accelerated<br>capital<br>allowances<br>£ | Retirement<br>benefit<br>obligation<br>£ | Prior year<br>IFRS 16<br>adjustment<br>£ | Total<br>£ |
|-----------------------------------|---|--|--|------------|
| As at 1 January 2019              | 413,882                                   | 815,021                                  | 107,065                                  | 1,335,968  |
| Transferred to Group<br>Companies | (434,299)                                 | -  | -  | (434,299)  |
| Current year movement - P&L       | 6,396                                     | (294,324)                                | (88,205)                                 | (376,133)  |
| Prior year adjustment             | (117,774)                                 | 67,953                                   | (2,788)                                  | (52,609)   |
| As at 31 December 2019            | (131,795)                                 | 588,650                                  | 16,072                                   | 472,927    |

#### 21 Provisions for liabilities

|                                | Dilapidations<br>£ | Restructuring<br>£ | Total<br>£  |
|--------------------------------|--------------------|--------------------|-------------|
| At 31 December 2018            | 654,472            | 1,703,964          | 2,358,436   |
| Additions in year              | 20,475             | 114,552            | 135,027     |
| Transferred to Group Companies | -                  | 2,306,184          | 2,306,184   |
| Utilised during the year       | (184,230)          | (949,000)          | (1,133,230) |
| At 31 December 2019            | 490,717            | 3,175,700          | 3,666,417   |
| Current                        | 157,491            | 332,623            | 490,114     |
| Non-current                    | 333,226            | 2,843,077          | 3,176,303   |
|                                | 490,717            | 3,175,700          | 3,666,417   |

Restructuring provisions relate to termination payments payable within five years.

Provisions have been recognised for the dilapidation costs associated with exiting operating leases. It is expected that these costs will be incurred within the next five years.

#### 22 Employee benefit plans

##### Defined contribution schemes

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of profit or loss as incurred. The Company made £955 contribution to defined contribution plans in the period to 31 December 2019 (2018: £1,078,590).

##### Defined benefit scheme

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The TTL Chiltern Group Pension Scheme was transferred to Warringtonfire Testing and Certification Limited from Exova (UK) Limited on 1 December 2018.

# EXOVA (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### 23 Contingent Liability

The Company ceased trading on 1 December 2018. The Company is involved in a small number of claims incidental to the ordinary course of its business, including disputes regarding services provided by the Company. The Company is not currently party to any legal proceedings other than those incidental to the ordinary course of its business. Therefore, the Company has contingent liabilities, in respect of these matters as an out flow of cash is possible, although any potential liability cannot be quantified at this time. If such a liability materialised the Company carries appropriate insurance coverage and expects that insurance cover in place will mitigate the impact of any significant claims.

| 24 Share capital                         | 2019<br>£     | 2018<br>£     |
|--|---------------|---------------|
| <b>Authorised, Issued and fully paid</b> |               |               |
| 10,000 Ordinary shares of £1 each        | 10,000        | 10,000        |
|  | <u>10,000</u> | <u>10,000</u> |

### 25 Events after the reporting date

Whilst it is difficult to predict the full extent of the COVID-19 impact, management notes that events such as announcements or the enactment of new measures to contain the virus or decisions taken by management in respect of such measures are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Given the difficulty in quantifying the impact of COVID-19, it is inherently difficult to quantify the potential impact on the impairment of fair value assets. Due to the continued uncertainty caused by the pandemic, management have not been able to accurately quantify the potential impact of the COVID-19 on fair values; however, their best estimates indicate no material change from the statement of financial position date. Balances carried at their fair values are provided in note 1 of these financial statements and the following specific accounts in the financial statements: Amounts owed by group undertakings (note 17) and Trade and other receivables (note 17).

Note 14 includes impairment of the right of use asset for the lease of Unit 4, ABZ Business Park, Dyce, Aberdeen AB21 0BH. During 2020, a sub-tenant began to pay the Company for use of this property. The sub-tenant's lease commitment will enable to the Company to reverse the impairment in relation to this property during FY2020.

### 26 Related party transactions

The Company has taken advantage of the exemption contained within paragraph 8(j) and (k) of FRS 101, and has not disclosed transactions entered with wholly owned group companies or key management personnel. There were no other related party transactions in the year.

# **EXOVA (UK) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2019***

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### **27 Controlling party**

The Company's immediate parent undertaking is Exova Group (UK) Limited, registered in England and Wales.

The parent company of the smallest group of which the Company is a member, and for which group financial statements are prepared, is Element Materials Technology Limited, a company incorporated in England and Wales.

Copies of the group financial statements of Element Materials Technology Limited can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ. Element Materials Technology Limited's registered office address is 10 Lower Grosvenor Place, London, England, SW1W 0EN.

The ultimate parent undertaking of the largest Group which includes the Company and for which Group financial statements are prepared is Element Materials Technology Group Limited, a company incorporated in England and Wales. The ultimate controlling party of Element Materials Technology Group Limited is Bridgepoint Europe V Fund, which is in turn managed by Bridgepoint Advisers Limited, a company incorporated in England.

Copies of the Group financial statements of Element Materials Technology Group Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ. Element Materials Technology Group Limited's registered office address is 5 Fleet Place, London, England, EC4M 7RD.