

Exova (UK) Limited

Financial Statements

For the year ended 31 December 2017



Strategic report

For the year ended 31 December 2017

The Directors present their Strategic Report for the year ended 31 December 2017.

Review of the business

The Company is a wholly owned subsidiary of Exova Group (UK) Limited.

The principal activity of the Company continues to be specialist testing covering the areas of metallurgy, environmental and analysis of materials and the associated manufacturing of test specimens.

The key financial performance indicators during the year were as follows:

	2017	2016	Change
	£m	£m	%
Turnover	91.3	91.3	-%
Operating profit	14.1	15.5	(10.3)%
Total equity	100.8	88.0	14.5%

Key developments

The key developments in 2017 reported by segment were:

Aerospace

The sector delivered another strong year of growth due to the industry's rising demand in production for the new generation of aero engines.

The outlook for 2018 remains positive as we continue to invest to expand our testing capabilities and capacity to service the changing demands and testing requirements of the market.

Oil & Gas

2017 was another challenging year for the Oil & Gas market as oil prices remained low but a continuation of our strategy focusing on selective investments in capacity and capability, whilst also diversify the business, meant that we saw stability return to performance of the sector in the second half of the year.

Looking forward to 2018, we continue to remain cautious about the outlook with an expectation that any recovery, when it comes, will be slow.

Fire & Building Products

In the sector, we opened a state-of-the-art 50,000 square foot facility in Wednesbury expanding our capabilities and capacity in the door, windows and hardware industries. The facility has a dedicated customer viewing gallery for test witnessing and also includes both meeting and conference room facilities, enhancing the customer experience.

Looking forward to 2018 we expect the business to grow ahead of the market as we anticipate an increase in demand in our existing territories for our fire testing and certification services and we extend our scope of testing capabilities into new geographies.

Infrastructure & Environmental

The UK environmental business grew strongly across all of its areas of operations including stack emission testing, asbestos, occupational hygiene and chemistry activities.

The Jones Environmental laboratory, acquired in 2016, had its first full year of operations under the Group's ownership and has added significant environmental capabilities and is now amongst the UK's leading providers.

Looking to 2018 we expect to see growth across of our UK environmental business. We were successful in the rebid of our contract with Magnox, which will see over 80 of our experts delivering asbestos monitoring and consultancy services across 12 nuclear power stations for at least a further three years.

Strategic report (continued)

For the year ended 31 December 2017

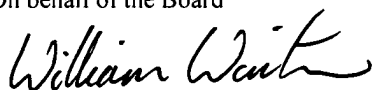
Principal risks and uncertainties

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

- The Group's reputation risk as a leader in testing services: The Group has quality control procedures and operational KPIs in place to mitigate this risk which are under constant review and subject to regular external audit by accreditation bodies and customers.
- Consolidation of customer base, competition and pricing pressure: The Group is improving customer service creating and expanding focused Strategic Accounts Management and Key Accounts Management programs and improving operational delivery and regularly monitoring performance against expectations.
- Dependence on key personnel: The Group intends to continue investing in recruiting and retaining the best technical experts and ensuring that the management team and other highly skilled personnel are invested in the business alongside the Group's shareholders.
- Global economic and market conditions: The strength of our market is an important driver for our growth. Our business is well diversified both geographically and by end user. Our business activities expose us to a wide range of business practices. We have a strong Group culture of integrity and ethical behavior to ensure a consistent approach regardless of local custom.
- IT systems: The business depends on the effective operation of global IT systems. Regular system maintenance and backups are taken. Disaster recovery plans are in place across the network which are tested and improved regularly.
- Liquidity risks: In order to ensure that sufficient funds are available to fund ongoing operations and future developments, management regularly reviews cash flow forecasts and financing arrangements of the business to ensure that there is sufficient funding in place
- Exchange and interest rate risks: The Group continues to monitor the exchange rate risks associated with both servicing its debt and the revaluation of income statement and balance sheet. The Group uses cross currency swaps and interest rate caps to mitigate these risks. The interest rate caps were put in place for three years where appropriate.

In accordance with its risk management guidelines, the Group raises awareness of business risks at all operational management levels, and encourages all management teams to assess and minimize risk. The Group ensures that appropriate insurance cover is in place in respect of customarily insured liabilities and claims.

On behalf of the Board



William Winter

Director

26 September 2018

Registered No. SC070429

Directors' report

For the year ended 31 December 2017

The Directors present their report for the year ended 31 December 2017.

Directors

R Veitch, R Bhogaita and G Keenan served as directors throughout the financial year. Changes since 1 January 2017 are as follows:

	Appointed	Resigned
A Stevenson	-	3 March 2017
B Reynolds	-	27 November 2017
W Winter	1 March 2017	-
J Willox	-	22 September 2017
P Barry	-	28 September 2017
M Davies	-	16 May 2018

Dividends

The Directors do not recommend payment of a dividend (2016 - £nil).

Post balance sheet events

On the 1st September 2018 the UK Environmental business and the shared services activity of the company were contributed to newly formed subsidiaries of the company, Exova Environmental UK Limited and Element Materials Technology Shared Services Limited..

Going concern

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

After making suitable enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the Company newsletter, the Group's intranet and internet sites, One Alliance and presentations for employees of the financial performance of the Group. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' report (continued)

For the year ended 31 December 2017

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 audit information of which the Company and the Group's auditor is unaware, and
- that Director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Appointment of auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed re-appointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board



William Winter

Director

26 September 2018

Directors' responsibilities statement

For the year ended 31 December 2017

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Exova (UK) Limited

Opinion

We have audited the financial statements of Exova (UK) Limited for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23, 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 (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Exova (UK) Limited

whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

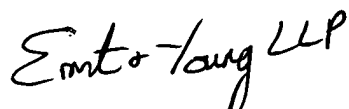
As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Mark Harvey (Senior statutory auditor)

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

Glasgow

26 September 2018

Income Statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Turnover	3	91.3	91.3
Net operating costs	4	(77.2)	(75.8)
Operating profit		14.1	15.5
Exceptional (costs)/gains	5	(4.7)	10.6
Investment income from group undertakings	8	0.2	-
Interest receivable and similar income	6	0.6	0.5
Interest payable and similar charges	7	(1.5)	(1.4)
Profit on ordinary activities before taxation		8.7	25.2
Taxation	11	1.6	0.2
Profit for the year		10.3	25.4

The results for the current and preceding years relate wholly to continuing activities.

Statement of Comprehensive Income

for the year ended 31 December 2017


	Notes	2017 £m	2016 £m
Profit for the year		10.3	25.4
Other comprehensive income not to be reclassified in profit or loss in subsequent periods			
Actuarial gain/(loss)	19	3.0	(4.4)
Income tax effect		(0.5)	0.8
Impact of rate change on deferred tax		-	(0.2)
Impact of hive-up accounting		-	0.5
Other comprehensive income/(loss) (net of tax)		2.5	(3.3)
Total comprehensive income for the year		12.8	22.1

Balance Sheet

As at 31 December 2017

		2017	2016
	Notes	£m	£m
Non-current assets			
Intangible assets	12	56.0	52.2
Tangible fixed assets	13	21.7	20.4
Investments	14	21.8	27.5
Deferred tax asset	18	2.3	1.0
		<u>101.8</u>	<u>101.1</u>
Current assets			
Debtors due less than one year	15	38.6	29.0
Debtors due greater than one year	15	44.0	34.3
Cash at bank and in hand		<u>2.3</u>	<u>1.4</u>
		84.9	64.7
Creditors: amounts falling due within one year	16	(20.3)	(18.8)
		<u>64.6</u>	<u>45.9</u>
Net current assets		166.4	147.0
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(42.1)	(37.2)
Provisions	17	(9.4)	(4.4)
Retirement benefit obligation	19	(14.1)	(17.4)
Net assets		<u>100.8</u>	<u>88.0</u>
Capital and reserves			
Issued share capital	20	-	-
Profit and loss account		<u>100.8</u>	<u>88.0</u>
Total equity		<u>100.8</u>	<u>88.0</u>

These financial statements were approved by the Board of Directors on 26 September 2018 and signed on its behalf by



William Winter

Director

26 September 2018

Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £m	Retained earnings £m	Total shareholders' equity £m
At 1 January 2016	-	65.9	65.9
Profit for the year	-	25.4	25.4
Other comprehensive loss	-	(3.3)	(3.3)
At 31 December 2016	-	88.0	88.0
Profit for the year	-	10.3	10.3
Other comprehensive income	-	2.5	2.5
At 31 December 2017	-	100.8	100.8

Notes to the financial statements

For the year ended 31 December 2017

1. Authorisation of financial statements of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of Exova (UK) Limited for the year ended 31 December 2017 were approved by the Board of Directors on 26 September 2018 and the Balance Sheet was signed on the Board's behalf by William Winter. Exova (UK) Limited is a limited Company incorporated in Scotland, is domiciled in the UK and its registered office is Lochend Industrial Estate, Queen Anne Drive, Newbridge, Midlothian, EH28 8LP. 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.

2. Basis of presentation and significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost basis modified to include the revaluation of financial instruments. 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 financial statements have been prepared on a going concern basis. The reasons for this are outlined in the Director's report on page 3.

The accounting policies have been consistently applied to all years presented.

The financial statements are presented in Pounds Sterling (£) and all values are rounded to the nearest hundred thousand (£0.1m) except where otherwise indicated.

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

- The requirements of paragraphs 62, B64(d), B64 (e), B64(g), B64(h), B64(j), to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66, and B67 of IFRS 3 Business Combinations as the equivalent disclosures are in the consolidated financial statements of Element Materials Technology Group Limited in which the company is consolidated;
- 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.

Where required, equivalent disclosures are given in the group financial statements of 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 23.

Notes to the financial statements

For the year ended 31 December 2017

2. Basis of presentation and significant accounting policies (continued)

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Areas requiring the Directors to make judgements, estimates and assumptions are highlighted in these accounting policies and throughout the notes to the consolidated financial statements. Key estimation and judgement area are as follows:

Revenue recognition

The varied nature of the contractual arrangements entered into by the Company requires consideration to be given to the most appropriate accounting treatment. This involves judgement over whether partly completed work meets the Group's revenue recognition policies. The details of the revenue recognition policy are given below.

Taxation

Judgements are required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The amount of such liabilities is based on an assessment of various factors, such as experience of previous tax audits and differing interpretations of tax law. This assessment relies on estimates and assumptions and involves a series of judgements about future events. To the extent that the final tax outcome of these matters is different from the amount recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Note 10 Income tax, and note 17 Deferred tax provide further details of the judgements made.

Summary of significant accounting policies

Intangible assets

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. On transition to FRS 10, "Goodwill and Intangible Assets", goodwill previously written off to reserves has not been reinstated in the Balance Sheet. On disposal or closure of a business acquired prior to 31 December 1997, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

For goodwill arising on acquisitions after 31 December 1997, goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not subject to annual amortisation but is instead tested annually for impairment and carried at cost less accumulated impairment losses.

The UK Companies Act required goodwill to be reduced by provisions for depreciation on a systematic basis over its useful economic life. However under IFRS 3 Business Combinations, goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

Other intangibles are stated at cost less accumulated amortisation and any recognised impairment losses. The estimated useful lives of other intangibles assets are as follows:

Customer relationships	5-20 years
Computer software	3-5 years

Notes to the financial statements

For the year ended 31 December 2017

2. Basis of presentation and significant accounting policies (continued)

Property plant and equipment

Property, plant and equipment are shown at historical cost, less subsequent depreciation and impairment. Cost represents invoiced cost plus other costs that are directly attributable to the acquisition of the item.

No depreciation is provided on freehold land.

Depreciation is provided on all other property, plant and equipment to write down their cost or, where their useful economic lives have been revised, their carrying amount at the date of revision to their estimated residual values on a straight line basis over the periods of their estimated or revised, remaining useful economic lives respectively. These lives are considered to be:

Freehold buildings	50 years
Plant and equipment	Between 3 and 15 years

The residual value and useful economic life are reviewed, and adjusted if appropriate at each Balance Sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Investments

Investments represent shareholdings in subsidiary undertakings and are shown at cost, less provision for any impairment.

Revenue recognition

Revenue comprises the fair value net of tax of the consideration received or receivable for services rendered by the Company in the ordinary course of their business; the Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company. Short term projects are recognised in revenue once the service is completed, this is usually when the report of findings is issued. In some instances, where the project is classed as long term, the Company accounts for the transaction on the basis of the value of the work done if this can be measured reliably. In the case that it cannot be measured reliably the revenue is limited to the recoverable value of the cost so far incurred.

Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the future expected cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Exceptional items

The Company presents, as separately disclosed items on the face of the Income Statement, those items of income and expense which, because of their nature, merit separate presentation to allow users to understand better the elements of financial performance in the period. The Group believes this presentation facilitates a comparison with prior periods and a better assessment of trends in financial performance.

Where applicable, these items include amortisation of intangible assets, impairment of property, plant and equipment, acquisition and integration costs, profit or loss on disposal of a business, and restructuring costs.

Notes to the financial statements

For the year ended 31 December 2017

2. Basis of presentation and significant accounting policies (continued)

Income Tax

The tax expense represents the sum of the current taxes payable and deferred tax.

The current tax credit is calculated on the basis of the tax laws enacted or substantially enacted at the Balance Sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The tax charge is included in the Income Statement except if it relates to an item recognised directly in equity or other comprehensive income.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable, that the temporary differences will not reverse in the foreseeable future.

Retirement benefit obligations

The Company participates in a defined contribution pension scheme. Contributions to this scheme are charged to the Income Statement as they become payable. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method in accordance with the advice of qualified actuaries. The liability recognised in the Balance Sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. Re-measurements arising from adjustments and changes in the actuarial assumptions when estimating the present value of the obligation are recognised in equity in the Statement of Other Comprehensive Income in the period in which they arise.

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 Balance Sheet date. Differences arising on translation are charged or credited to the Income Statement except when deferred in equity as qualifying cash flow hedges.

Leasing

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Income Statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Rentals paid under operating lease (those where a significant portion of the risks and rewards of ownership are retained by the lessor) are charged to the Income Statement over the term of the lease on a straight line basis.

Notes to the financial statements

For the year ended 31 December 2017

3. Turnover and segmental analysis

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

Turnover, profit before taxation and net assets are all attributable to one activity and originate in one geographical location (the UK).

The turnover is analysed by destination as follows:

	2017	2016
	£m	£m
United Kingdom	70.5	73.1
Rest of Europe	12.0	9.1
Middle East	1.9	1.9
North America	1.9	2.1
Rest of world	5.0	5.1
	<u>91.3</u>	<u>91.3</u>

Included in turnover are sales to fellow group undertakings of £2.9m (2016 – £3.6m).

4. Operating costs

	2017	2016
	£m	£m
Selling costs	4.2	3.8
Administrative expenses	15.6	12.9
Other operating income	(0.6)	(0.6)
Operating profit is stated after charging:		
Depreciation (note 13)	4.1	3.8
Amortisation (note 12)	2.4	2.0
Management charges	1.2	1.8
Foreign exchange losses/(gains)	0.1	(1.4)
Hire of plant and machinery	0.2	0.4
Operating lease rentals – property	2.1	2.2
– other	0.8	0.7

Auditors' remuneration of £25,000 (2016 - £25,000) is paid by Exova Group (UK) Limited. There were no fees paid to the Company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the Company.

Notes to the financial statements

For the year ended 31 December 2017

5. Exceptional (costs)/gains

	2017 £m	2016 £m
Acquisition and integration costs	(0.3)	0.2
Gain on disposal of business	-	12.4
Write off of intercompany balance	(1.3)	0.9
Restructuring costs	(3.1)	(2.9)
	<u>(4.7)</u>	<u>10.6</u>

Acquisition and integration costs primarily relate to the acquisition and integration of Western Technical Services Limited, Jones Environmental Limited and Insight N.D.T Limited.

Gain on disposal of business related to the sale of the Food, Water and Pharmaceutical business to international life sciences Company, Eurofins Scientific, which completed on 1 July 2016.

As a result of the dissolution of Pipeline Developments Limited and Clyde Analytical Limited intercompany balances with Exova Group (UK) Limited were written off in 2016. In addition, irrecoverable intercompany balances on some overseas subsidiaries were written off in 2017.

Restructuring costs represent staff redundancy costs related to rationalisation and restructuring of certain laboratories and administrative departments, and onerous lease provisions.

6. Interest receivable and similar income

	2017 £m	2016 £m
Interest receivable on loans to Group undertakings	<u>0.6</u>	<u>0.5</u>

7. Interest payable and similar charges

	2017 £m	2016 £m
Interest payable on loans from Group undertakings	1.0	0.9
Other interest payable	0.1	-
Pension interest	0.4	0.5
	<u>1.5</u>	<u>1.4</u>

8. Investment income from group undertakings

	2017 £m	2016 £m
Dividends	<u>0.2</u>	<u>-</u>

Notes to the financial statements

For the year ended 31 December 2017

9. Staff costs

	2017	2016
	£m	£m
Wages and salaries	36.0	36.1
Social security costs	3.6	3.5
Other pension costs	1.3	1.2
	<u>40.9</u>	<u>40.8</u>

The average monthly number of employees during the year was made up as follows:

	2017	2016
	No.	No.
Production and distribution	884	867
Administration	241	249
	<u>1,125</u>	<u>1,116</u>

10. Directors' remuneration

	2017	2016
	£m	£m
Aggregate remuneration in respect of qualifying services	1.8	1.6
Aggregate amounts receivable under long term incentive plans	1.1	-
Compensation for loss of office	0.1	-
	<u>3.0</u>	<u>1.6</u>

The emoluments of the highest paid director paid by the Company were £1.2m (2016 - £0.7m). No Company contributions were made to a pension scheme on behalf of directors' qualifying services. £1.9m of the aggregate remuneration disclosed above was paid by a fellow Group subsidiary.

Notes to the financial statements

For the year ended 31 December 2017

11. Tax

Tax credit in the Income Statement

	2017	2016
	£m	£m
UK corporation tax – current year	-	-
UK corporation tax – prior year	(0.1)	(0.2)
Deferred tax – current year	0.9	0.4
Deferred tax – prior year	0.9	-
Withholding tax written off	(0.1)	-
Tax credit in the Income Statement	<u>1.6</u>	<u>0.2</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016 – 20%). The differences are explained below:

	2017	2016
	£m	£m
Profit on ordinary activities before tax	<u>8.6</u>	<u>25.2</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20%)	(1.7)	(5.0)
<i>Effects of</i>		
Group relief claimed for nil consideration	3.3	2.5
Transfer to/from unrecognised deferred tax	-	0.2
Prior year corporation tax adjustment	(0.1)	(0.2)
Prior year deferred tax adjustment	0.9	-
Deferred tax asset rate change	(0.2)	-
Non-taxable gain on disposal	-	2.5
Withholding tax written off	(0.1)	-
Non-taxable dividend income	0.1	-
Expenses not deductible for tax purposes	(0.4)	-
Non-taxable loan waiver	(0.2)	0.2
Current tax for the year	<u>1.6</u>	<u>0.2</u>

Factors that may affect future tax charges

At the Balance Sheet date the Company had an unrecognised deferred tax asset of £nil (2016 - £nil).

A reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. UK deferred taxes at the balance sheet date, to the extent they have been recognised, have therefore been measured at 17% (2016: 17%) on the basis that they are expected to reverse after 1 April 2020.

Notes to the financial statements

For the year ended 31 December 2017

12. Intangible assets

	<i>Computer software</i> £m	<i>Goodwill</i> £m	<i>Customer relationships</i> £m	<i>Total</i> £m
Cost:				
At 1 January 2017	2.7	37.0	16.5	56.2
Additions	0.5	5.7	-	6.2
At 31 December 2017	3.2	42.7	16.5	62.4
Amortisation:				
At 1 January 2017	(1.2)	-	(2.8)	(4.0)
Charge for the year	(0.6)	-	(1.8)	(2.4)
At 31 December 2017	(1.8)	-	(4.6)	(6.4)
Net book value:				
At 31 December 2017	1.4	42.7	11.9	56.0
At 31 December 2016	1.5	37.0	13.7	52.2

On 1 April 2017, the trade and net assets of Insight NDT Limited were transferred to the Company at book value. The cost of the company investment in Insight NDT Limited reflected the underlying fair value of the net assets and goodwill at the date of acquisition.

As a result of the acquisition and subsequent hive-up the following net assets were transferred to the Company in 2017.

	Total £m
Non-current assets	1.1
Debtors	0.7
Cash	0.5
Creditors	(0.4)
Net assets transferred	1.9

Notes to the financial statements

For the year ended 31 December 2017

13. Tangible fixed assets

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost:			
At 1 January 2017	10.7	47.9	58.6
Additions	1.4	4.1	5.5
Disposals	(0.9)	(3.6)	(4.5)
At 31 December 2017	11.2	48.4	59.6
Depreciation:			
At 1 January 2017	(6.1)	(32.1)	(38.2)
Charge for the year	(0.5)	(3.6)	(4.1)
Disposals	0.8	3.6	4.4
At 31 December 2017	(5.8)	(32.1)	(37.9)
Net book value:			
At 31 December 2017	5.4	16.3	21.7
At 31 December 2016	4.6	15.8	20.4

Finance lease

The carrying value of tangible fixed assets held under finance leases at 31 December 2017 was £nil (2016: £0.1m). Leased assets are pledged as security for the related finance lease.

Notes to the financial statements

For the year ended 31 December 2017

14. Investments

	2017 £m	2016 £m
Cost and net book value:		
At 1 January	27.5	16.8
Additions in year:		
Western Technical Services Limited	-	(0.3)
Jones Environmental Forensics Limited	-	15.5
Insight NDT Limited	-	7.6
Reclassification to goodwill:		
Insight NDT Limited	(5.7)	-
Jones Environmental Forensics Limited	-	(11.2)
Western Technical Services Limited	-	(0.9)
At 31 December	<u>21.8</u>	<u>27.5</u>

On 2 December 2016, the Group acquired 100% of the share capital of Insight NDT Limited (Insight), a South Yorkshire-based non-destructive testing (NDT) and radiographic inspection business for a purchase consideration of £7.6m (£7.1m net of cash acquired). The purchase consideration included deferred consideration of £0.1m and an amount of up to £1.5m is contingent upon future profitability of the business. On 1 April 2017, the business was hived up into Exova (UK) Limited.

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.

Notes to the financial statements

For the year ended 31 December 2017

14. Investments (continued)

Held directly:

Subsidiary undertakings	Registered office	Country of Incorporation	Principal activity	Percentage holding
Catalyst Environmental Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
Insight NDT Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
Exova Warringtonfire Consulting (Singapore) Pte Ltd	60 Paya Lebar Road, 08-43 Paya Lebar Square, Singapore, 409051	Singapore	Testing	100%
Metallurgical Services Private Limited	Mehta House, Ashok Silk Mills Lane, Khatkopar (West), Mumbai, 40086	India	Testing	100%
Element Materials Technology Singapore Pte. Ltd (Formerly Exova (Singapore) Pte Ltd)	60 Paya Lebar Road, 08-43 Paya Lebar Square, Singapore, 409051	Singapore	Testing	100%
Environmental Evaluation Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
TRADA Technology Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
Chiltern International Fire Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
FIRA International Limited	6 Coronet Way, Centenary Park, Eccles, Manchester, M50 1RE	UK	Testing	100%
BM TRADA Certification Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
BM TRADA Overseas Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Holding	100%
Western Technical Services Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Non-trading	100%
Accusense Systems Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
Jones Environmental Forensics Limited	10 Lower Grosvenor Place, London, SW1W 0EN	UK	Dormant	100%
BM TRADA Certificaciones Lusas SLU	Cl Amos de Escalante 2 3 F, 39002, Santander	Spain	Testing	100%
BM TRADA Italia S.R.L. (Disposed 29 June 2018)	Via Al Ponte Reale, 2/91, Genova	Italy	Testing	100%

Notes to the financial statements

For the year ended 31 December 2017

14. Investments (continued)

Held indirectly:

Subsidiary undertakings	Registered office	Country of Incorporation	Principal activity	Percentage holding
BM TRADA Deutschland GmbH	Landwehrstrasse 61, 80336, Munich	Germany	Certification	50%
BM TRADA Certification Espana SL	Cl Amos de Escalante 2 3 F, 39002, Santander	Spain	Testing	100%
BM TRADA Suomi OY	Niemenkatu 73, 15140 Lahti, Suomi	Finland	Certification	50%
Tianjin C-Kai BM TRADA Certification Company Limited	Room 708, Suite F Hai Tai Plaza, No.8 Hua Tian Road, Tianjin, Hua Yuan Industrial Zone	China	Certification	40%
BM TRADA Certification North America Inc	820 Bear Tavern Road, Mercer County, West Trenton, NJ 08628	US	Testing	100%
BM TRADA Certification Canada Inc (formerly BM TRADA Certification Inc)	398-2416 Main Street, Vancouver BC V5T 3E2	Canada	Testing	100%
Exova Warringtonfire LLC	P.O. Box 24863, Doha	Qatar	Testing	49%
Admaterials Technologies Pte Limited	58 Sungei Kadut Loop, Prospa Industrial Building, Singapore, 729501	Singapore	Testing	70%
BM TRADA RKCA Certifications Private Limited	515 Tulsiani Chambers, Nariman Point, Mumbai, 400021	India	Dormant	50%
BM TRADA (HK) Limited	Unit 5, 5/F, Wah Chun Industrial Centre, No.54 Tai Chung Road, Tsuen Wan, N.T.	Hong Kong	Certification	70%
FIRA - CMA Testing Services Limited	Room 1401-3 Yan Hing Centre, 9-13 Wong Chuk Yeung Street, Fo Tan, Shatin	Hong Kong	Certification	50%
BM TRADA Cyprus Limited (Disposed 29 June 2018)	Andrea Assiots, 4A, Akropoli, Niscoai, 2007	Cyprus	Certification	50%
Standard BM TRADA Belgelendirme AS	Cevizli Mh, Tugay Yolu Cd, N.20/B, Ofisim ist, Ism.K.7, Maltepe, N.42	Turkey	Certification	50%
BM TRADA Latvija	Volgundes Street 32, Riga, LV-1046	Latvia	Certification	50%
BM TRADA RKCA Lanka Certifications (Private) Limited	No.1041-2/1 Maradana Road, Borella, Columbo 8	Sri Lanka	Certification	50%
BM TRADA Eesti Ou	Peterburi tee 46, Tallinn 11415	Estonia	Certification	50%
BM TRADA Lietuva	Neires Krantine 16, Kaunas, LT-48402	Lithuania	Certification	50%
Admaterials Technologies Sdn Bhd	2C Jalan Giam, Taman Majidee, 80250 Johor Nahr, Johor	Malaysia	Testing	70%

Notes to the financial statements

For the year ended 31 December 2017

15. Trade and other debtors

	2017 £m	2016 £m
<i>Due within one year</i>		
Trade debtors	15.4	14.9
Less provision for impairment of receivables	(0.2)	(0.4)
Net trade receivables	15.2	14.5
Other receivables	0.2	0.3
Prepayments and accrued income	1.7	1.7
Corporation tax	0.3	-
Amounts owed by group undertakings	21.2	12.5
	38.6	29.0
<i>Due after more than one year</i>		
Amounts owed by group undertakings	43.9	34.2
Other debtors	0.1	0.1
	82.6	63.3

Amounts owed by group undertakings falling due after more than one year are loans to Group companies which are either interest free or bear interest of 3 month EURIBOR/LIBOR plus 4% and have no fixed repayment date.

16. Creditors

	2017 £m	2016 £m
<i>Due within one year</i>		
Trade creditors	4.0	4.1
Amounts owed to group undertakings	1.3	0.3
Corporate tax	-	0.2
Other taxes and social security costs	2.5	2.5
Other creditors	2.1	2.7
Accruals and deferred income	7.2	6.2
Deferred and contingent considerations	3.2	2.7
Amounts owed under finance leases	-	0.1
	20.3	18.8
<i>Due after more than one year</i>		
Amounts owed to group undertakings	42.1	35.6
Deferred and contingent considerations	-	1.6
	42.1	37.2

Amounts owed to group undertakings falling due after more than one year are loans to Group companies which are either interest free or bear interest of 3 month EURIBOR/LIBOR plus 4% and have no fixed repayment date.

Notes to the financial statements

For the year ended 31 December 2017

17. Provisions for liabilities and charges

	<i>Dilapidations</i> £m	<i>Restructuring</i> £m	<i>Total</i> £m
At 1 January 2017			
Current	1.4	1.3	2.7
Non-current	1.0	0.7	1.7
	2.4	2.0	4.4
Additions in year	1.6	4.9	6.5
Utilised during the year	(0.4)	(1.1)	(1.5)
At 31 December 2017	3.6	5.8	9.4
Current	0.7	2.0	2.7
Non-current	2.9	3.8	6.7
	3.6	5.8	9.4

Restructuring provisions relate to termination payments and onerous lease contracts payable within six 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.

18. Deferred tax

	<i>Accelerated capital allowances</i> £m	<i>Amortisation of intangibles</i> £m	<i>Retirement benefit obligation</i> £m	<i>Total</i> £m
Deferred tax asset/(liability) at 1 January 2017	0.7	(2.7)	3.0	1.0
Recognised during the year	1.4	-	-	1.4
Utilised during the year	-	0.4	(0.5)	(0.1)
Deferred tax asset/(liability) at 31 December 2017	2.1	(2.3)	2.5	2.3

Notes to the financial statements

For the year ended 31 December 2017

19. Pension obligation

Defined contribution scheme

The Company operates a defined contribution scheme. Contributions to this scheme are charged to the Income Statement as they become payable. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

Contributions to the scheme for the year were £0.8 m (2016: £1.2m).

Defined benefit scheme

As part of the BM TRADA Group Limited acquisition the TTL Chiltern Group Pension Scheme, became the obligation of Exova (UK) Limited on 1 December 2015. The assets of this scheme are administered by trustees in a fund independent from those of the Company and invested directly on the advice of the independent professional investment managers. The scheme was closed to future accruals from 30 September 2015. The last full actuarial valuation was carried out for the trustees of the pension fund as at 31 December 2013 and was updated by the actuary due to the disclosure requirements of IAS 19, as at 31 December 2017. The next full valuation is expected to be completed for the year ended 31 December 2017.

It has been agreed with the trustees that amounts of £60,862 per month, increasing annually by 3% from 1 January 2015 to 31 December 2025 will be paid by the Company to eliminate the deficit. In addition, the Company will pay administration expenses and the Pension Protection Fund Levy.

The assets and liabilities of the scheme at 31 December 2017 are:

	2017 £m	2016 £m
Scheme assets at fair value		
Equity	22.8	18.7
Bonds	7.3	10.2
Property	7.4	6.8
Cash	0.2	0.2
Fair value of scheme assets	37.7	35.9
Present value of scheme liabilities	(51.8)	(53.3)
Defined benefit pension plan deficit	(14.1)	(17.4)

There were no amounts recognised in the Income Statement due to the pension scheme being closed to future accruals. The amounts recognised in the Statement of Other Comprehensive Income for the year are analysed as follows:

	2017 £m	2016 £m
Net interest on defined benefit liability	0.4	0.5
Taken to Statement of Other Comprehensive Income		
Actuarial gain/(loss)	3.0	(4.4)
Income tax	(0.5)	0.3
Effect of rate change of deferred tax	-	0.3
	2.5	(3.8)

Notes to the financial statements

For the year ended 31 December 2017

19. Pension obligation (continued)

	2017	2016
Principal actuarial assumptions:		
Discount rate	2.5%	2.6%
Inflation rate	3.1%	3.2%
Rate of salary increases	2.0%	2.2%
Life expectancy for pensioners at the age of 65 (years):		
Male	21.9	21.9
Female	23.7	23.9

Changes in significant assumptions and the impact on the defined benefit obligation at 31 December 2017 are shown below

	0.25% increase £m	0.25% decrease £m
Assumptions:		
Inflation rate	1.3	-
Discount rate	-	2.2
	increase by one year £m	decrease by one year £m
Assumed life expectancy at age 65	1.8	-

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The average duration of the defined benefit plan obligations at the end of the reporting period is 16.8 years (2016: 16-17 years).

20. Issued share capital

	2017	2016
<i>Authorised, called up and fully paid</i>	£	£
10,000 Ordinary shares of £1 each	10,000	10,000

Notes to the financial statements

For the year ended 31 December 2017

21. Commitments

Capital commitments

	2017	2016
	£m	£m
Contracted for but not provided	0.2	0.3

Operating lease commitments:

	2017 <i>Land and buildings</i> £m	2017 <i>Plant and machinery</i> £m	2016 <i>Land and buildings</i> £m	2016 <i>Plant and machinery</i> £m
Amounts payable:				
within 1 year	2.0	0.3	2.2	0.4
within 2-5 years	6.2	1.0	6.7	0.5
after 5 years	11.1	-	12.3	-

Finance lease and hire purchase commitments

	2017 <i>Minimum payments</i> £m	2017 <i>Present value of payments</i> £m	2016 <i>Minimum payments</i> £m	2016 <i>Present value of payments</i> £m
Within 1 year	-	-	0.1	0.1
Between 2-5 years	-	-	-	-
	-	-	0.1	0.1

22. Related parties

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

23. Ultimate holding company and controlling party

The immediate parent undertaking is Exova Group (UK) Limited, which is incorporated in England. Element Materials Technology Group Limited is the ultimate holding company. 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. Copies of the consolidated financial statements of Element Materials Technology Limited can be obtained from Element Materials Technology Limited, 10 Lower Grosvenor Place, London, SW1W 0EN.