

SGS United Kingdom Limited

Annual report and financial statements

for the year ended 31 December 2015

Registered number: 1193985



SGS United Kingdom Limited

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SGS United Kingdom Limited

Officers and professional advisers

DIRECTORS

P Earl
J Griffiths

SECRETARY

C Aldag

REGISTERED OFFICE

Rossmore Business Park
Ellesmere Port
South Wirral
Cheshire
CH65 3EN

BANKERS

National Westminster Bank plc
5 High Street
Bracknell
Berkshire
RG12 1DH

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool
L2 3PG

SGS United Kingdom Limited

Strategic report

This strategic report has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to SGS United Kingdom Limited and its subsidiary undertakings when viewed as a whole.

PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiaries during the year were independent testing, inspection, verification, employment agency services and certification services.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The consolidated statement of comprehensive income is set out on page 8. The directors expect the present level of business to be sustained in the foreseeable future.

As shown in the consolidated statement of comprehensive income, turnover has decreased by 0.3% to £129,987,000 (2014: £130,377,000) indicating a stabilisation of operations acquired in previous years. Profit from operations has remained stable with a small reduction from £13,975,000 to £13,798,000.

Average group employee numbers have increased in the year from 1,381 to 1,399 heads.

The balance sheet shows net assets of £78,356,000 (2014: £60,888,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The group operates in a competitive trading environment. The group manages the risk by offering diversified activities in different industry sectors that enable the group to minimise any specific industry downturn risk. There is continued focus on the group's product offering and its relationship with its customers.

A reasonable proportion of the group's sales are made in US dollars and Euros and it is therefore exposed to the movement in exchange rates. While there are some purchases in Euros and US Dollars to offset this risk, the group also manages this risk by the maintenance of foreign currency bank accounts and the use of forward foreign exchange contracts.

Group risks are discussed in the Annual Report of the ultimate parent, SGS SA, which does not form part of this report.

The group has prepared the financial statements on a going concern basis, further details of which are given in note 1 to the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events since the balance sheet date are contained in note 24 to the financial statements.

Approved by the Board of Directors

And signed on behalf of the Board



J. Griffiths

Director

31 March 2016

SGS United Kingdom Limited

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

Going concern

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Financial risk management objectives and policies

The group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit risk

The group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The group and company have sufficient cash reserves.

Further details regarding liquidity risk can be found in the accounting policies in the financial statements.

Dividends

The directors have not recommended a dividend to be paid to ordinary shareholders (2014: £nil).

SGS United Kingdom Limited

Directors' report (continued)

Directors

The directors, who served throughout the year except as noted, were as follows:

Mrs P Earl
Mrs J Griffiths

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

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 group continues and that appropriate training is arranged. It is the policy of the group and the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The group 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 group and the company. This is achieved through formal and informal meetings, the company web portal. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditor

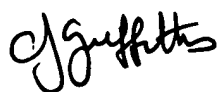
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



J Griffiths
Director

31 March 2016

Rossmore Business Park
Ellesmere Port
South Wirral
Cheshire
CH65 3EN

SGS United Kingdom Limited

Directors' responsibilities statement

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 group and parent company and of the profit or loss of the group for that period.

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

- select suitable accounting policies and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SGS United Kingdom Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SGS UNITED KINGDOM LIMITED

We have audited the financial statements of SGS United Kingdom Limited for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in equity, and the related notes 1 to 27. 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 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

SGS United Kingdom Limited

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SGS UNITED KINGDOM LIMITED (continued)**

Matters on which we are required to report by exception

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
- 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.



Timothy Edge ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool, United Kingdom
31 March 2016

SGS United Kingdom Limited

Consolidated statement of comprehensive income For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	3	129,987	130,377
Cost of sales		(95,684)	(95,114)
Gross profit		34,303	35,263
Administrative expenses		(20,505)	(21,288)
Operating profit		13,798	13,975
Exceptional expenses	4	(9,906)	-
Profit on ordinary activities before interest and taxation		3,892	13,975
Finance income (net)	5	1,008	721
Profit on ordinary activities before taxation	6	4,900	14,696
Tax on profit on ordinary activities	9	(3,723)	(3,794)
Profit for the financial year		1,177	10,902
Profit for the financial year		1,177	10,902
Re-measurement of net defined benefit liability	22	3,027	(13,817)
Tax relating to components of other comprehensive income	17	(545)	2,644
Capital contribution to pension scheme	20	13,809	-
Other comprehensive income/(expense)		16,291	(11,173)
Total comprehensive income/(expense)		17,468	(271)

All of the activities relate to continuing activities.

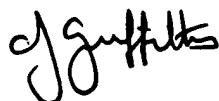
SGS United Kingdom Limited

Consolidated balance sheet As at 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	11	22,027	25,669
Tangible assets	12	18,625	17,656
		<u>40,652</u>	<u>43,325</u>
Current assets			
Stocks	14	2,159	844
Debtors	15	36,318	34,427
Cash at bank and in hand		14,684	7,034
		<u>53,161</u>	<u>42,305</u>
Creditors: amounts falling due within one year	16	(41,379)	(33,158)
Net current assets		<u>11,782</u>	<u>9,147</u>
Total assets less current liabilities		<u>52,434</u>	<u>52,472</u>
Provisions for liabilities	17	(3,513)	(1,607)
Net assets excluding pension asset		<u>48,921</u>	<u>50,865</u>
Pension asset	22	29,435	10,023
Net assets including pension asset		<u>78,356</u>	<u>60,888</u>
Capital and reserves			
Called-up share capital	20	8,000	8,000
Capital reserve	20	26	26
Capital contribution reserve	20	13,809	-
Profit and loss account	20	56,521	52,862
Shareholders' funds		<u>78,356</u>	<u>60,888</u>

The financial statements of SGS United Kingdom Limited registered number 1193985 were approved by the board of directors and authorised for issue on 31 March 2016.

They were signed on its behalf by:



J Griffiths
Director

SGS United Kingdom Limited


Company balance sheet

As at 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	11	927	1,037
Tangible assets	12	13,862	12,903
Investments	13	51,365	51,365
		66,154	65,305
Current assets			
Stocks	14	202	111
Debtors	15	23,608	30,229
Cash at bank and in hand		5,771	2,147
		29,581	32,487
Creditors: amounts falling due within one year	16	(38,129)	(44,080)
Net current liabilities		(8,548)	(11,593)
Total assets less current liabilities		57,606	53,712
Provisions for liabilities	17	(3,450)	(1,706)
Net assets excluding pension asset		54,156	52,006
Pension asset	22	29,435	10,023
Net assets including pension asset		83,591	62,029
Capital and reserves			
Called-up share capital	20	8,000	8,000
Capital contribution reserve	20	13,809	-
Profit and loss account	20	61,782	54,029
Shareholders' funds		83,591	62,029

The financial statements of SGS United Kingdom Limited registered number 1193985 were approved by the board of directors and authorised for issue on 31 March 2016.

They were signed on its behalf by:



J Griffiths
Director

SGS United Kingdom Limited

Consolidated statement of changes in equity As at 31 December 2015

	Called-up share capital £000	Capital reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	8,000	26	-	46,273	54,299
Changes on transition to FRS 102 (see note 27)	-	-	-	6,860	6,860
At 1 January 2014 as restated	8,000	26	-	53,133	61,159
Profit for the financial year	-	-	-	10,902	10,902
Re-measurement of net defined benefit liability	-	-	-	(13,817)	(13,817)
Tax relating to items of other comprehensive income	-	-	-	2,644	2,644
Total comprehensive income	-	-	-	(271)	(271)
At 31 December 2014	8,000	26	-	52,862	60,888
Profit for the financial year	-	-	-	1,177	1,177
Re-measurement of net defined benefit liability	-	-	-	3,027	3,027
Tax relating to items of other comprehensive income	-	-	-	(545)	(545)
Capital contribution to pension scheme	-	-	13,809	-	13,809
Total comprehensive income	-	-	13,809	3,659	17,468
At 31 December 2015	8,000	26	13,809	56,521	78,356

SGS United Kingdom Limited

Company statement of changes in equity

At 31 December 2015

	Called-up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	8,000	-	44,233	52,233
Changes on transition to FRS 102 (see note 27)	-	-	6,860	6,860
At 1 January 2014 as restated	8,000	-	51,093	59,093
Profit for the financial year	-	-	14,109	14,109
Re-measurement of net defined benefit liability	-	-	(13,817)	(13,817)
Tax relating to items of other comprehensive income	-	-	2,644	2,644
Total comprehensive income	-	-	2,936	2,936
At 31 December 2014	8,000	-	54,029	62,029
Profit for the financial year	-	-	5,271	5,271
Re-measurement of net defined benefit liability	-	-	3,027	3,027
Tax relating to items of other comprehensive income	-	-	(545)	(545)
Capital contribution to pension scheme	-	13,809	-	13,809
Total comprehensive income	-	13,809	7,753	21,562
At 31 December 2015	8,000	13,809	61,782	83,591

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a. General information and basis of accounting

SGS United Kingdom Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on pages 2.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 27.

The functional currency of SGS United Kingdom Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the group operates.

SGS United Kingdom Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to presentation of a cash flow statement and remuneration of key management personnel.

b. Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

c. Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The directors' report further describes the financial position of the company; its cash flows, liquidity position and borrowing facilities; the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, provide the directors with a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d. Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between 5 and 20 years. Provision is made for any impairment.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies (continued)

e. Intangible assets – brand names and customer relationships

Separately acquired intangible assets are included at cost and amortised in equal annual instalments over a period of 10 years which is their estimated useful economic life. Provision is made for any impairment.

Intangible assets acquired as part of a business combination are measured at fair value at the acquisition date.

f. Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold 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:

Freehold buildings	3%
Short term leasehold buildings	Over the lease term
Plant and machinery	10-25%
Motor vehicles	20-33%
Furniture and equipment	10-33%

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

g. Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies (continued)

g. Financial instruments (continued)

- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

Investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

(iii) Equity instruments

Equity instruments issued by the group are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risk. The group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies (continued)

g. Financial instruments (continued)

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

i. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

j. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies (continued)

j. Taxation (continued)

When the amount that can be deducted for tax for an asset that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

k. Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

l. Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies (continued)

m. Employee benefits

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

n. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks;
- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income and reported under equity.

o. Leases

The group as lessee

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

p. Share-based payments

The ultimate parent, SGS SA, issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. The fair value of share options is based on the market value at the grant date.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 1, the directors are required to make judgements, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Critical judgement – recoverability of trade debtors and unbilled revenue

Trade debtors and unbilled revenue are recognised net of an estimated allowance for bad debts. These allowances for potential uncollectible amounts are estimated based primarily on the group's ageing policy guidelines, individual client analysis and an analysis of the underlying risk profile of each revenue stream by business and geography.

Key source of estimation uncertainty – impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of their value in use to the group. The value in use calculation requires the company to estimate the future cash flows expected to arise from the intangible asset and a suitable discount rate in order to calculate present value.

Key source of estimation uncertainty – estimations of employee retirement benefit obligations

The group maintains two defined benefit pension plans. The related asset recognised in the balance sheet represents the excess of the fair value of the plans' assets over the present value of the defined benefit obligations calculated annually by an independent actuary. The actuarial valuation includes assumptions such as discount rates, salary progression rates and mortality rates. These actuarial assumptions vary according to the prevailing economic and social conditions. Details of the assumptions are provided in note 22.

3. Turnover

An analysis of the group's turnover by class of business is set out below.

	2015 £000	2014 £000
Turnover:		
Inspection, testing, certification & laboratory services	129,987	130,377
	<u>129,987</u>	<u>130,377</u>

An analysis of the group's turnover by geographical market is set out below.

	2015 £000	2014 £000
Turnover:		
United Kingdom	90,706	89,725
Other countries	39,281	40,652
	<u>129,987</u>	<u>130,377</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

4. Exceptional expenses

At the balance sheet date the group had provided for all amounts due from SGS Angola Lda, a company incorporated in Angola and wholly owned by SGS SA, as there was significant uncertainty over the recoverability of these amounts. The value of this provision was £9,906,000.

5. Finance income (net)

	2015 £000	2014 £000
Interest payable	(134)	(237)
Interest receivable	-	10
Net interest on defined benefit liability (see note 22)	1,142	948
	<u>1,008</u>	<u>721</u>

6. Profit on ordinary activities before taxation

As permitted by section 408 of the Companies Act 2006, the holding company's statement of comprehensive income has not been included in these financial statements.

The consolidated total comprehensive income for the year of £17,468,000 (2014: £271,000 total comprehensive expense) includes profit of £5,271,000 (2014: £14,109,000) which relates to the parent company.

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2015 £000	2014 £000
Depreciation of tangible fixed assets	3,857	3,191
Amortisation of intangible assets	3,642	3,607
Operating lease rentals	3,556	3,371
Gain on disposal of fixed assets	(7)	(2)
Auditor's remuneration:		
- for the audit of the company's financial statements	54	68
- for the audit of the financial statements of subsidiaries	45	58
Non-audit services:		
- tax services	60	28
	<u>60</u>	<u>28</u>

7. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2015 Number	2014 Number
Production/inspection	1,073	1,233
Administration	264	86
Overhead	62	62
	<u>1,399</u>	<u>1,381</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

7. Staff numbers and costs (continued)

Their aggregate remuneration comprised:

	2015 £000	2014 £000
Wages and salaries	51,339	49,709
Social security costs	5,619	5,407
Other pension costs (see note 22)	3,045	2,828
	<u>60,003</u>	<u>57,944</u>

Other pension costs include only those items included within operating costs. Items reported elsewhere have been excluded.

8. Directors' remuneration and transactions

	2015 £000	2014 £000
<i>Directors' remuneration</i>		
Emoluments	344	322
Company contributions to money purchase pension schemes	16	15
	<u>360</u>	<u>337</u>

	2015 Number	2014 Number
The number of directors who:		
Are members of a defined benefit pension scheme	1	1
Are members of a money purchase pension scheme	1	1

	2015 £000	2014 £000
Remuneration of the highest paid director:		
Emoluments	<u>240</u>	<u>221</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

9. Tax on profit on ordinary activities

The tax charge comprises:

	2015 £000	2014 £000
Current tax on profit on ordinary activities		
UK corporation tax:		
- Current year charge	1,740	2,735
- Adjustment in respect of prior years	(246)	173
Total current tax	<u>1,494</u>	<u>2,908</u>
Deferred tax		
- Origination and reversal of timing differences	2,015	1,166
- Effect of increase in tax rate on opening liability	(387)	(75)
- Adjustment in respect of prior years	601	(205)
Total deferred tax	<u>2,229</u>	<u>886</u>
Total tax on profit on ordinary activities	<u>3,723</u>	<u>3,794</u>

The standard rate of tax applied to reported profit on ordinary activities is 20.25% (2014: 21.5%).

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £000	2014 £000
Profit on ordinary activities before tax	<u>4,900</u>	<u>14,696</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 20.25% (2014: 21.5%)	992	3,160
Effects of:		
- Expenses not deductible for tax purposes	3,318	2,401
- Income not taxable	(647)	(731)
- Group relief	90	(1,012)
- Prior period adjustment	354	46
- Tax rate change	(387)	(72)
- Movement in deferred tax	-	2
- Losses	3	-
Total current tax	<u>3,723</u>	<u>3,794</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

10. Share-based payments

Equity-settled share option schemes

Selected directors and employees of the SGS SA group are entitled to participate each year in a group share option plan. The benefit consists of a right to buy SGS SA shares (accounted for as equity-settled share-based payment transactions) at a pre-determined fixed price through a traded option plan. The vesting period is over three years. Options are forfeited if the employee leaves the group before the options vest.

Details of the share options outstanding during the year are as follows:

Description	Exercise period		Options outstanding at 31 December 2014	Granted during the year	Forfeited during the year	Exercised during the year	Options outstanding at 31 December 2015
	From	To	Number	Number	Number	Number	Number
SGSMF – LTI 2011	Jan-15	Jan-16	200,000	-	100,000	100,000	-
SGSPF – Ordinarily issued	Jan-17	Jan-19	120,886	-	3,335	-	117,551
SGSKF – Ordinarily issued 2012	Jan-15	Jan-17	120,215	-	2,336	18,664	99,215
SGSOP – Ordinarily issued 2010	Jan-13	Jan-15	9,000	-	-	9,000	-
SGSMF – Ordinarily issued 2011	Jan-14	Jan-16	36,000	-	-	36,000	-
SGSWS – Ordinarily issued 2013	Jan-16	Jan-18	121,184	-	-	74,684	46,500
SGSBB – Ordinarily issued 2015	Jan-18	Jan-20	-	42,871	-	-	42,871
Total			607,285	42,871	105,671	238,348	306,137

In 2015 42,871 options granting the right to acquire shares of SGS SA, at a strike price of CHF 1,798 (100 options gives the right to acquire one share and each option expires in January 2020) were granted. The aggregate of the estimated fair values of the options granted is CHF 95,174. The fair value of the share options granted during the year is based on their market value at grant date. All options are publicly traded.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

11. Intangible fixed assets

Group

	Goodwill £000	Brand name £000	Customer relations £000	Total £000
Cost				
At 1 January and 31 December 2015	39,476	2,830	6,854	49,160
Amortisation				
At 1 January 2015	20,750	1,179	1,562	23,491
Charge for the year	2,675	283	684	3,642
At 31 December 2015	23,425	1,462	2,246	27,133
Net book value				
At 31 December 2015	16,051	1,368	4,608	22,027
At 31 December 2014	18,726	1,651	5,292	25,669

Company

	Goodwill £000
Cost	
At 1 January and 31 December 2015	11,714
Amortisation	
At 1 January 2015	10,677
Charge for the year	110
At 31 December 2015	10,787
Net book value	
At 31 December 2015	927
At 31 December 2014	1,037

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

12. Tangible fixed assets

Group

	Freehold land and buildings £000	Short term leasehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Furniture and equipment £000	Total £000
Cost						
At 1 January 2015	14,820	2,293	28,583	759	3,056	49,511
Additions	1	129	4,765	-	-	4,895
Disposals	-	-	(220)	(20)	-	(240)
At 31 December 2015	<u>14,821</u>	<u>2,422</u>	<u>33,128</u>	<u>739</u>	<u>3,056</u>	<u>54,166</u>
Depreciation						
At 1 January 2015	6,071	1,102	20,966	660	3,056	31,855
Charge for the year	578	108	3,144	27	-	3,857
Eliminated on disposal	-	-	(151)	(20)	-	(171)
At 31 December 2015	<u>6,649</u>	<u>1,210</u>	<u>23,959</u>	<u>667</u>	<u>3,056</u>	<u>35,541</u>
Net book value						
At 31 December 2015	<u>8,172</u>	<u>1,212</u>	<u>9,169</u>	<u>72</u>	<u>-</u>	<u>18,625</u>
At 31 December 2014	<u>8,749</u>	<u>1,191</u>	<u>7,617</u>	<u>99</u>	<u>-</u>	<u>17,656</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

12. Tangible fixed assets (continued)

Company

	Freehold land and buildings £000	Short term leasehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Furniture and equipment £000	Total £000
Cost						
At 1 January 2015	14,245	873	18,743	325	2,592	36,778
Additions	-	-	3,107	-	38	3,145
Disposals	-	-	(184)	(20)	-	(204)
At 31 December 2015	14,245	873	21,666	305	2,630	39,719
Depreciation						
At 1 January 2015	5,991	482	14,529	281	2,592	23,875
Charge for the year	447	48	1,581	13	30	2,119
Eliminated on disposal	-	-	(117)	(20)	-	(137)
At 31 December 2015	6,438	530	15,993	274	2,622	25,857
Net book value						
At 31 December 2015	7,807	343	5,673	31	8	13,862
At 31 December 2014	8,254	391	4,214	44	-	12,903

The value of land not depreciated for the group is £918,000 (2014: £918,000) and for the company is £806,000 (2014: £806,000).

13. Fixed asset investments

	Company 2015 £000	Company 2014 £000
Subsidiary undertakings	51,365	51,365
<i>Subsidiary undertakings</i>		
		Company £000
Cost and net book value		
At 1 January and 31 December 2015		51,365

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

13. Fixed asset investments (continued)

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings, associates and other significant investments.

Subsidiary undertakings	Country of incorporation	Principal activity	Holding %
SGS Mineral Services UK Limited +	UK	Testing and inspection services	100
SGS M-Scan Limited +	UK	Life Sciences	100
SGS Redwood (UK) Limited +	UK	Dormant	100
SGS Baseefa Limited +	UK	Testing and inspection services	100
SGS Correl Rail Limited +	UK	Inspection and certification services	100
SGS Vitrology Limited +	UK	Life Sciences	100
SGS Emics Limited +	UK	Testing and calibration services	100
SGS Roplex Limited +	UK	Testing and inspection services	100
SGS MIS Testing Limited +	UK	Testing and inspection services	100
SGS MIS Environmental Limited +	UK	Testing and inspection services	100
SGS Inspection Services Limited +	UK	Dormant	100
SGS Strath Services Limited +	UK	Dormant	100
Auto Marine Specialists Limited +	UK	Dormant	100
SGS Telecommunications Europe Limited +	UK	Dormant	100

+ Held directly by SGS United Kingdom Limited.

14. Stocks

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Raw materials and consumables	278	57	21	9
Work in progress	1,881	787	181	102
	<u>2,159</u>	<u>844</u>	<u>202</u>	<u>111</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

15. Debtors

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Amounts falling due within one year:				
Trade debtors	17,485	21,508	12,582	15,713
Gross amount due from customers for contract work	2,260	1,463	1,943	1,243
Amounts owed by group undertakings	14,110	9,794	6,827	12,142
Other debtors and prepayments	2,463	1,662	2,155	1,131
Corporation tax asset	-	-	101	-
	<u>36,318</u>	<u>34,427</u>	<u>23,608</u>	<u>30,229</u>

Amounts owed by group undertakings are repayable on demand. No interest is charged on these balances.

16. Creditors: amounts falling due within one year

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Trade creditors	4,284	1,535	2,685	1,166
Amounts owed to group undertakings	16,617	8,856	19,894	25,094
Corporation tax	512	1,429	-	3,291
Other taxation and social security	3,694	3,644	3,352	1,079
Accruals and deferred income	16,099	17,650	12,046	13,407
Derivative financial liabilities	173	44	152	43
	<u>41,379</u>	<u>33,158</u>	<u>38,129</u>	<u>44,080</u>

Amounts owed by group undertakings are repayable on demand. No interest is charged on these balances.

17. Provisions for liabilities

	Deferred taxation £000	Vacant properties £000	Total £000
Group			
At 1 January 2015	1,527	80	1,607
Created in the year	-	243	243
Utilisation of provision	-	(21)	(21)
Charge on profit on ordinary activities	2,229	-	2,229
Charge on other comprehensive income	(545)	-	(545)
At 31 December 2015	<u>3,211</u>	<u>302</u>	<u>3,513</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

17. Provisions for liabilities (continued)

	Deferred taxation £000	Vacant properties £000	Total £000
Company			
At 1 January 2015	1,626	80	1,706
Utilisation of provision	-	(21)	(21)
Charge on profit on ordinary activities	2,310	-	2,310
Charge on other comprehensive income	(545)	-	(545)
	<u>3,391</u>	<u>59</u>	<u>3,450</u>
At 31 December 2015	3,391	59	3,450

Deferred tax is provided as follows:

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Defined benefit pension	(5,298)	(5,843)	(5,298)	(5,843)
Other timing differences	2,087	4,316	1,907	4,217
	<u>(3,211)</u>	<u>(1,527)</u>	<u>(3,391)</u>	<u>(1,626)</u>
Deferred tax liability	(3,211)	(1,527)	(3,391)	(1,626)

Deferred taxation

Deferred tax assets and liabilities are offset only where the group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the group.

The Finance Act 2013 reduced the main rate of corporation tax to 20% effective from 1 April 2015. Finance No 2 Act which was substantively enacted on 26 October 2015 includes provisions to further reduce the corporation tax rate to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. Accordingly deferred tax assets and liabilities have been calculated at the rates which will be in force when the timing differences are projected to reverse.

Vacant properties

The dates and payments of the vacant lease rentals are certain and the provision has been discounted at a discount rate of 8%. The provision will be utilised within 5 years.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2015

18. Financial instruments

The carrying values of the group and company's financial assets and liabilities are summarised by category below:

	Group 2015 £000	Group 2014 £000
Financial assets		
Measured at undiscounted amount receivable		
• Trade and other debtors (see note 15)	22,208	24,633
• Amounts due from group undertakings (see note 15)	14,110	9,794
	<u>36,318</u>	<u>34,427</u>
Financial liabilities		
Measured at fair value		
• Derivative financial liabilities (see note 16)	173	44
Measured at undiscounted amount payable		
• Trade and other creditors (see note 16)	24,589	24,258
• Amounts owed to group undertakings (see note 16)	16,617	8,856
	<u>41,379</u>	<u>33,158</u>

The group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group 2015 £000	Group 2014 £000
Fair value gains and losses		
On derivative financial liabilities (see note 19)	<u>(129)</u>	<u>(74)</u>

19. Derivative financial instruments

	Group 2015 £000	Group 2014 £000
Liabilities		
Forward foreign currency contracts	<u>(173)</u>	<u>(44)</u>

Forward foreign currency contracts

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

SGS United Kingdom Limited

Notes to the financial statements

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19. Derivative financial instruments (continued)

The following table details the forward foreign currency contracts outstanding as at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	2015 rate	2014 rate	2015 £000	2014 £000	2015 £000	2014 £000
Less than 3 months						
Sell EUR	0.738	0.783	(23)	6	(23)	6
Sell EUR	0.738	0.783	(5)	3	(5)	3
Buy USD	1.482	1.554	(119)	(52)	(120)	(52)
Buy USD	1.482	1.554	(4)	-	(4)	-
Sell EUR	0.738	0.783	(7)	(1)	(7)	(2)
Sell EUR	0.738	0.783	(7)	(2)	(7)	(2)
Buy USD	1.482	1.554	(3)	1	(3)	1
Buy USD	-	1.554	-	1	-	1
Sell EUR	0.738	0.783	(1)	(2)	(1)	(2)
Sell EUR	0.738	0.783	(1)	-	(1)	-
Buy USD	1.482	1.554	(1)	3	(1)	3
Buy USD	1.482	-	(1)	-	(1)	-
					(173)	(44)

Losses of £129,000 (2014: losses of £74,000) were recognised in the statement of comprehensive income.

20. Called-up share capital and reserves

	2015 £000	2014 £000
Allotted, called-up and fully-paid		
8,000,000 ordinary shares of £1 each	8,000	8,000

The group and company's other reserves are as follows:

Called-up share capital – represents the nominal value of shares that have been issued.

Capital reserve account – historic capital reserve.

Capital contribution – represents a transfer made by the parent of pension assets from a group scheme into the UK pension fund.

Profit and loss account – includes all current and prior period retained profits and losses net of dividends paid and other adjustments.

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For the year ended 31 December 2015

21. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2015		2014	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
- within one year	861	1,476	1,030	1,152
- between one and five years	1,474	1,403	2,017	694
- after five years	825	-	965	-
	<u>3,160</u>	<u>2,879</u>	<u>4,012</u>	<u>1,846</u>
Company				
- within one year	429	1,476	580	1,152
- between one and five years	365	1,403	731	694
- after five years	2	-	19	-
	<u>796</u>	<u>2,879</u>	<u>1,330</u>	<u>1,846</u>

22. Retirement benefit schemes

Defined contribution schemes

The group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the statement of comprehensive income in the year ended 31 December 2015 was £3,045,000 (2014: £2,828,000).

Defined benefit schemes

The group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to retirement benefits of up to two thirds of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided. The schemes are funded schemes.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2015 by Mr. Ian Kirk, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

	Valuation at	
	2015	2014
	%	%
Key assumptions used:		
Discount rate	3.9	3.6
Future pension increases	3.2	3.1
Inflation	3.2	3.1

Mortality assumptions:

The mortality assumptions used at 31 December 2015 are based on the SINA tables, with the CMI 2011 projections and a 1% per annum minimum improvement rate and an age rating for male members of the SGS Pension Scheme.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

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For the year ended 31 December 2015

22. Retirement benefit schemes (continued)

	Valuation at	
	2015 years	2014 years
Retiring today:		
Males	21.20	21.25
Females	22.87	22.65
Retiring in 20 years:		
Males	21.25	21.19
Females	22.65	22.57

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2015 £000	2014 £000
Current service cost	(1,162)	(948)
Net finance income	444	996
	<u>(718)</u>	<u>48</u>
Recognised as other comprehensive income/(expense)	3,027	(13,817)
Total comprehensive income/(expense) relating to defined benefit scheme	<u>2,309</u>	<u>(13,769)</u>

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2015 £000	2014 £000
Present value of defined benefit obligations	(134,637)	(142,356)
Fair value of scheme assets	164,072	152,379
Net asset recognised in the balance sheet	<u>29,435</u>	<u>10,023</u>

Movements in the present value of defined benefit obligations were as follows:

	2015 £000	2014 £000
At 1 January	142,356	121,990
Service cost	1,162	948
Interest cost	5,043	5,520
Actuarial (gains) / losses	(8,696)	17,991
Contributions from scheme participants	345	368
Benefits paid	(5,536)	(4,373)
Premiums paid	(37)	(88)
At 31 December	<u>134,637</u>	<u>142,356</u>

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For the year ended 31 December 2015

22. Retirement benefit schemes (continued)

Movements in the fair value of scheme assets were as follows:

	2015 £000	2014 £000
At 1 January	152,379	141,110
Interest income	5,487	6,516
Return on plan assets	(6,084)	3,861
Contributions from the employer	17,518	4,985
Contributions from scheme participants	345	368
Benefits paid	(5,536)	(4,373)
Premiums paid	(37)	(88)
At 31 December	164,072	152,379

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	2015 £000	2014 £000
Cash and cash equivalents	2,865	14,494
Equity instruments	31,964	36,274
Debt instruments	62,198	62,034
Other	67,045	39,577
	164,072	152,379

23. Contingent liabilities

The group has given a joint guarantee in respect of the bank borrowings of its ultimate UK parent company, SGS Holding UK Limited, SGS United Kingdom Limited, SGS M-Scan Limited, SGS Baseefa Limited, SGS MIS Environmental Limited, SGS MIS Testing Limited, SGS Vitrology Limited and the ultimate parent company SGS SA in respect of overdraft facilities provided by the principal bankers. At 31 December 2015, the group's joint and several contingent liability was £1,000,000 (2014: £1,000,000). The directors do not consider that any liability will arise under the guarantee.

24. Subsequent events

On the 4th January 2016 four subsidiary entities were hived up into SGS United Kingdom Limited. These entities were: SGS Mineral Services UK Limited, SGS Roplex Limited, SGS Emics Limited, SGS Correl Rail Limited.

On the same day the company also hived up SGS Vernolab Limited, a company owned by SGS United Kingdom Limited's immediate parent company SGS Holding UK Limited.

25. Related party transactions

The group has taken advantage of the exemptions provided by Section 33 "Related Party Disclosures" of FRS 102 and has not disclosed details of transactions with members of SGS SA group of companies as the group is 100% owned by SGS SA.

26. Controlling party

The ultimate parent company and controlling party of SGS United Kingdom Limited is SGS SA, a company incorporated in Switzerland. SGS SA is the parent company of the largest group for which group accounts are prepared. Copies of the financial statements of SGS SA are available from 1 Place des Alpes, B.P. 2152, CH-1211 Geneva 1, Switzerland. The parent undertaking of the smallest group which includes the company and for which

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26. Controlling party (continued)

group accounts are prepared is SGS Holding UK Limited, a company incorporated in the UK and registered in England and Wales. Copies of the financial statements of SGS Holding UK Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

27. Explanation of transition to FRS 102

This is the first year that the group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Reconciliation of equity

Note	Group		Company	
	At 1 January 2014 £000	At 31 December 2014 £000	At 1 January 2014 £000	At 31 December 2014 £000
Equity reported under previous UK GAAP	54,299	59,407	52,233	60,548
Adjustment to equity on transition to FRS 102:				
1 Increase in defined benefit pension asset	6,860	1,481	6,860	1,481
Equity reported under FRS 102	61,159	60,888	59,093	62,029

Notes to the reconciliation of equity at 1 January 2014

- Adjustment made to restate prior period balance due to the change from FRS 17 to FRS 102 rules relating to the presentation and disclosure of surpluses on defined benefit pension schemes.

Reconciliation of profit or loss for 2014

	Group £000	Company £000
Profit for the financial year under previous UK GAAP	10,902	14,109
Adjustments to profit on transition to FRS 102	-	-
Profit for the financial year under FRS 102	10,902	14,109