

SGS United Kingdom Limited

Annual report and financial statements

for the year ended 31 December 2016

Registered number: 1193985



SGS United Kingdom Limited

Contents

	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Consolidated statement of comprehensive income	8
Consolidated balance sheet	9
Company balance sheet	10
Consolidated statement of changes in equity	11
Company statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the financial statements	14

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 5% to £123,489,000 (2015: £129,987,000) as some operations acquired in previous years struggled to perform. Profit from operations experienced a 63% decrease from £13,798,000 to £5,141,000, caused by the weak performance of one of the subsidiaries as mentioned below and increased administration charges.

Average group employee numbers have decreased in the year from 1,399 to 1,309 heads.

The balance sheet shows net assets of £12,159,000 (2015: £78,356,000), the majority of this reduction being due to a dividend paid of £60,000,000 (2015: £nil) and a reduction of the net pension asset of £15,690,000 (2015 increase £19,412,000).

The directors are considering the options for one of the Groups subsidiary entities and are in consultation with staff regarding this matter. The parent company, SGS United Kingdom Limited, has confirmed its commitment to support the company for the next twelve months.

On the 4th January 2016 the trade and assets of 4 subsidiary companies (SGS EMICS Limited, SGS Roplex Limited, SGS Minerals Services Limited and SGS Correl Rail Limited) and one sister company (SGS Vernolab Limited) were hived up into SGS United Kingdom Limited.

POST BALANCE SHEET EVENTS

There have been no events since the balance sheet date that require either disclosure in or adjustment to the financial statements.

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.

Approved by the Board of Directors

And signed on behalf of the Board



J. Griffiths

Director

19th April 2017

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 2016.

Future developments

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 paid a dividend to the ordinary shareholders of £60,000,000 (2015: £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

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 and 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

19th April 2017

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) including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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.

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 2016 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, consolidated cash flow statement, and the related notes 1 to 25. 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 2016 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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 any material misstatements in the Strategic Report and the Directors' Report.

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, by the parent company or returns adequate for our audit have not been received from branches not visited by us or
- the parent company 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.



Giles Murphy FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool, United Kingdom

19th April 2017

SGS United Kingdom Limited

Consolidated statement of comprehensive income For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	3	123,489	129,987
Cost of sales		(90,860)	(95,684)
Gross profit		32,629	34,303
Administrative expenses		(27,488)	(20,505)
Operating profit		5,141	13,798
Exceptional income / (expenses)	4	6,411	(9,906)
Profit before interest and taxation		11,552	3,892
Finance income (net)	5	1,075	1,008
Profit before taxation	6	12,627	4,900
Tax on profit	9	(4,951)	(3,723)
Profit for the financial year		7,676	1,177
Re-measurement of net defined benefit liability	22	(16,714)	3,027
Tax relating to components of other comprehensive income	17	2,841	(545)
Capital contribution to pension scheme	20	-	13,809
Other comprehensive (loss) / income		(13,873)	16,291
Total comprehensive (loss) / income		(6,197)	17,468

All of the activities relate to continuing activities.

SGS United Kingdom Limited

Consolidated balance sheet

As at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	11	14,927	22,027
Tangible assets	12	17,427	18,625
		<u>32,354</u>	<u>40,652</u>
Current assets			
Stocks	14	745	2,159
Debtors	15	50,437	36,318
Cash at bank and in hand		26,091	14,684
		<u>77,273</u>	<u>53,161</u>
Creditors: amounts falling due within one year	16	<u>(108,039)</u>	<u>(41,379)</u>
Net current (liabilities) / assets		<u>(30,766)</u>	<u>11,782</u>
Total assets less current liabilities		<u>1,588</u>	<u>52,434</u>
Provisions for liabilities	17	<u>(3,174)</u>	<u>(3,513)</u>
Net assets excluding pension asset		<u>(1,586)</u>	<u>48,921</u>
Pension asset	22	<u>13,745</u>	<u>29,435</u>
Net assets including pension asset		<u><u>12,159</u></u>	<u><u>78,356</u></u>
Capital and reserves			
Called-up share capital	20	8,000	8,000
Capital reserve	20	26	26
Capital contribution reserve	20	13,809	13,809
Profit and loss account	20	(9,676)	56,521
Shareholders' funds		<u><u>12,159</u></u>	<u><u>78,356</u></u>

The financial statements of SGS United Kingdom Limited registered number 1193985 were approved by the board of directors and authorised for issue on 19th April 2017.

They were signed on its behalf by:



J Griffiths
Director

SGS United Kingdom Limited

Company balance sheet

As at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	11	6,969	927
Tangible assets	12	13,752	13,862
Investments	13	32,091	51,365
		<u>52,813</u>	<u>66,154</u>
Current assets			
Stocks	14	483	202
Debtors	15	36,537	23,608
Cash at bank and in hand		19,956	5,771
		<u>56,976</u>	<u>29,581</u>
Creditors: amounts falling due within one year	16	<u>(106,239)</u>	<u>(38,129)</u>
Net current liabilities		<u>(49,263)</u>	<u>(8,548)</u>
Total assets less current liabilities		<u>3,550</u>	<u>57,606</u>
Provisions for liabilities	17	<u>(3,002)</u>	<u>(3,450)</u>
Net assets excluding pension asset		<u>548</u>	<u>54,156</u>
Pension asset	22	<u>13,745</u>	<u>29,435</u>
Net assets including pension asset		<u><u>14,293</u></u>	<u><u>83,591</u></u>
Capital and reserves			
Called-up share capital	20	8,000	8,000
Capital contribution reserve	20	13,809	13,809
Profit and loss account	20	(7,516)	61,782
Shareholders' funds		<u><u>14,293</u></u>	<u><u>83,591</u></u>

The Company reported a profit for the financial year ended 31 December 2016 of £4,575,000 (2015: £1,905,000)

The financial statements of SGS United Kingdom Limited registered number 1193985 were approved by the board of directors and authorised for issue on 19th April 2017.

They were signed on its behalf by:



J Griffiths
Director

SGS United Kingdom Limited

Consolidated statement of changes in equity

As at 31 December 2016

	Note	Called-up share capital £000	Capital reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2015		8,000	26	-	52,862	60,888
Profit for the financial year		-	-	-	1,177	1,177
Re-measurement of net defined benefit liability	22	-	-	-	3,027	3,027
Tax relating to items of other comprehensive income	17	-	-	-	(545)	(545)
Capital contribution to pension scheme	20	-	-	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
Profit for the financial year		-	-	-	7,676	7,676
Re-measurement of net defined benefit liability	22	-	-	-	(16,714)	(16,714)
Tax relating to items of other comprehensive income	17	-	-	-	2,841	2,841
Total comprehensive loss		-	-	-	(6,197)	(6,197)
Dividends		-	-	-	(60,000)	(60,000)
At 31 December 2016		8,000	26	13,809	(9,676)	(12,159)

SGS United Kingdom Limited

Company statement of changes in equity At 31 December 2016

	Note	Called-up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2015		8,000	-	54,029	62,029
Profit for the financial year		-	-	5,271	5,271
Re-measurement of net defined benefit liability	22	-	-	3,027	3,027
Tax relating to items of other comprehensive income	17	-	-	(545)	(545)
Capital contribution to pension scheme	20	-	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
Profit for the financial year		-	-	4,575	4,575
Re-measurement of net defined benefit liability	22	-	-	(16,714)	(16,714)
Tax relating to items of other comprehensive income	17	-	-	2,841	2,841
Total comprehensive loss		-	-	(9,298)	(9,298)
Dividends		-	-	(60,000)	(60,000)
At 31 December 2016		8,000	13,809	(7,516)	14,293

SGS United Kingdom Limited

Consolidated statement of cash flows At 31 December 2016

	2016 £000	2015 £000
Profit for the financial year	7,676	1,177
Adjustments for:		
Depreciation of property plant and equipment	5,762	3,857
Amortisation of intangible assets	7,100	3,642
Gain / (loss) on disposal of intangible assets	11	(7)
Financing	(886)	(1,726)
Pension interest (income) / cost	(189)	718
Taxation	3,396	1,494
Operating cash flow before movement in working capital	22,870	9,155
Decrease / (increase) in stocks	1,414	(1,315)
(Increase) in debtors	(14,119)	(1,891)
(Decrease) / Increase in trade creditors	(1,271)	2,749
Increase in Intercompany creditors	6,281	7,761
Increase in other provisions	5,168	2,284
Pension contributions	(1,008)	(3,709)
Tax paid	(3,258)	(2,411)
Net cash flow from operating activities	16,077	12,623
Cash flows from investing activities		
Proceeds from sale of equipment	208	76
Purchase of equipment	(4,783)	(4,895)
Interest received	3	-
Net cash flows from investing activities	(4,572)	(4,819)
Cash flows from financing activities		
Interest paid	(98)	(154)
Net cash flows from financing activities	(98)	(154)
Net increase in cash and cash equivalents	11,407	7,650
Cash and cash equivalents at beginning of year	14,684	7,034
Cash and cash equivalents at end of year	26,091	14,684
Reconciliation to cash at bank and in hand:		
Cash at bank and in hand	26,091	14,684
Cash and cash equivalents	26,091	14,684

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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 private company limited by shares incorporated in England and Wales 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 page 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 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 remuneration of key management personnel and the presentation of a company only cash flow statement.

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.

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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

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.
- (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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

g. Financial instruments (continued)

- (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.

(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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

h. 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.

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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

j. Taxation (continued)

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 creditor amounts falling due within one year.

l. 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.

l. Employee benefits (continued)

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.

m. 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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

m. Foreign currency (continued)

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.

n. 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.

o. 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.

p. Dividend and interest revenue

Dividend income from investments is recognised when the shareholders' right to receive payment have been established, (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

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.

	2016 £000	2015 £000
Turnover:		
Inspection, testing, certification & laboratory services	123,489	129,987
	<u>123,489</u>	<u>129,987</u>

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

	2016 £000	2015 £000
Turnover:		
United Kingdom	88,632	90,706
Other countries	34,857	39,281
	<u>123,489</u>	<u>129,987</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

4. Exceptional expenses

	2016 £000	2015 £000
Goodwill write off	3,495	-
Group debt (write back) / write off	(9,906)	9,906
	<u>(6,411)</u>	<u>9,906</u>

An impairment review was made on investments and current profitability and as a result of this was a write off of goodwill of £3,495,000 in the company profit and loss account.

The amount of £9,906,000 was written off in 2015 as it was felt to be irrecoverable. In recognition of the fact that the company only built up the debt on the instruction from the parent entity to continue to do work for a fellow subsidiary, the ultimate parent entity took on the value of the debt from SGS United Kingdom and it was written back via an intercompany loan.

5. Finance income (net)

	2016 £000	2015 £000
Interest payable	(98)	(134)
Interest receivable	3	-
Net interest on defined benefit liability (see note 22)	1,170	1,142
	<u>1,075</u>	<u>1,008</u>

6. Profit 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 a loss of £(6,197,000) (2015 profit: £17,468,000 total comprehensive income) includes profit of £4,575,000 (2015: £1,905,000) which relates to the parent company.

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

	2016 £000	2015 £000
Depreciation of tangible fixed assets	4,805	3,857
Amortisation of intangible assets	3,605	3,642
Impairment of tangible assets	957	-
Operating lease rentals	3,586	3,556
Cost of stock recognised as an expense	552	543
Gain / (loss) on disposal of fixed assets	11	(7)
Auditor's remuneration:		
- for the audit of the company's financial statements	57	54
- for the audit of the financial statements of subsidiaries	44	45
Non-audit services:		
- tax services	60	60
	<u>60</u>	<u>60</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

7. Staff numbers and costs

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

	2016 Number	2015 Number
Production/inspection	970	1,073
Administration	273	264
Overhead	66	62
	<u>1,309</u>	<u>1,399</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	54,395	51,339
Social security costs	5,535	5,619
Other pension costs (see note 22)	3,031	3,045
	<u>62,961</u>	<u>60,003</u>

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

8. Directors' remuneration and transactions

	2016 £000	2015 £000
<i>Directors' remuneration</i>		
Emoluments	318	344
Company contributions to money purchase pension schemes	16	16
	<u>334</u>	<u>360</u>

	2016 Number	2015 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

	2016 £000	2015 £000
Remuneration of the highest paid director:		
Emoluments	221	240

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

9. Tax on profit

The tax charge comprises:

	2016 £000	2015 £000
Current tax on profit		
UK corporation tax:		
- Current year charge	2,209	1,740
- Adjustment in respect of prior years in respect of UK tax	1,323	(246)
- Foreign tax relief	(136)	-
Total UK tax	<u>3,396</u>	<u>1,494</u>
Overseas corporation tax:		
- Current year charge	136	-
Total current tax	<u>3,532</u>	<u>1,494</u>
Deferred tax		
- Origination and reversal of timing differences	1,956	2,015
- Effect of change in tax rate on opening liability	(561)	(387)
- Adjustment in respect of prior years	24	601
Total deferred tax	<u>1,419</u>	<u>2,229</u>
Total tax on profit	<u>4,951</u>	<u>3,723</u>

The standard rate of tax applied to reported profit on ordinary activities is 20.00% (2015: 20.25%).

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:

	2016 £000	2015 £000
Profit before tax	<u>12,627</u>	<u>4,900</u>
Tax on profit at standard UK corporation tax rate of 20.00% (2015: 20.25%)	2,525	992
Effects of:		
- Expenses not deductible for tax purposes	1,316	3,318
- Expense / (income) not taxable	323	(647)
- Group relief	(1)	90
- Prior period adjustment	1,347	354
- Tax rate change	(561)	(387)
- Losses in subsidiary entity	2	3
Total current tax	<u>4,951</u>	<u>3,723</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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.

A new Long Term Incentive Plan was introduced in 2015, under the form of a Performance Share Unit Plan (PSU). The PSU has a vesting period is over three years. PSU's are forfeited if the employee leaves the group before the end of the vesting period.

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

Description	Exercise Period		Options outstanding at 31 December 2015	Granted during the year	Forfeited during the year	Exercised during the year	Cancelled during the year	Options outstanding at 31 December 2016
	From	To	Number	Number	Number	Number	Number	Number
SGSPF – Ordinarily Issued	Jan-17	Jan-19	120,886	-	(6,002)	-	-	114,884
SGSKF – Ordinarily Issued 2012	Jan-15	Jan-17	122,883	-	(5,004)	(74,379)	-	43,500
SGSWS – Ordinarily Issued 2013	Jan-16	Jan-18	46,500	-	(4,002)	-	(42,498)	-
SGSBB – Ordinarily Issued 2015	Jan-18	Jan-20	41,524	-	-	-	-	41,524
			331,793	-	(15,008)	(74,379)	(42,498)	199,908

In 2016, no new options granting the right to acquire shares of SGS SA, were granted. The aggregate of the estimated fair values of the options granted is £nil. 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.

Details of the Performance Share Units outstanding during the year are as follows:

Description	Exercise period from	Shares Outstanding at 31 December 2015	Granted during the year	Forfeited during the year	Exercised during the year	Cancelled during the year	Shares Outstanding at 31 December 2016
		Number	Number	Number	Number	Number	Number
SGS-PSU-15	Jan-18	1,347	-	(94)	-	-	1,253
SGS-PSU-16	Jan-19	-	185	-	(35)	-	150
		1,347	185	(94)	(35)	-	1,403

In 2016, a total of 185 Performance Share Units of the 2018 Long-Term incentive Plan were granted to selected employees.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

11. Intangible fixed assets

Group

	Goodwill £000	Brand name £000	Customer relations £000	Total £000
Cost				
At 1 January and 31 December 2016	39,476	2,830	6,854	49,160
Amortisation				
At 1 January 2016	23,425	1,462	2,246	27,133
Charge for the year	2,638	283	684	3,605
Impairment	1,157	1,085	1,253	3,495
At 31 December 2016	27,220	2,830	4,183	34,233
Net book value				
At 31 December 2016	12,256	-	2,671	14,927
At 31 December 2015	16,051	1,368	4,608	22,027

Company

	Goodwill £000
Cost	
At 1 January 2016	11,714
Transferred from investments (note 13)	6,837
31 December 2016	18,551
Amortisation	
At 1 January 2016	10,787
Charge for the year	795
At 31 December 2016	11,582
Net book value	
At 31 December 2016	6,969
At 31 December 2015	927

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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 2016	14,821	2,422	33,128	739	3,056	54,166
Additions	1,061	484	3,220	1	17	4,783
Disposals	-	(202)	(1,100)	(366)	(3)	(1,671)
At 31 December 2016	<u>15,882</u>	<u>2,704</u>	<u>35,248</u>	<u>374</u>	<u>3,070</u>	<u>57,278</u>
Depreciation						
At 1 January 2016	6,649	1,210	23,959	667	3,056	35,541
Charge for the year	477	231	4,016	32	49	4,805
Impairment	-	-	957	-	-	957
Eliminated on disposal	-	(211)	(882)	(357)	(2)	(1,452)
At 31 December 2016	<u>7,126</u>	<u>1,230</u>	<u>28,050</u>	<u>342</u>	<u>3,103</u>	<u>39,851</u>
Net book value						
At 31 December 2016	<u>8,756</u>	<u>1,474</u>	<u>7,198</u>	<u>32</u>	<u>(33)</u>	<u>17,427</u>
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>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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 2016	14,245	873	21,666	305	2,630	39,719
Additions	-	478	4,633	143	67	5,321
Disposals	-	(202)	(1,095)	(172)	(3)	(1,472)
At 31 December 2016	<u>14,245</u>	<u>1,149</u>	<u>25,204</u>	<u>276</u>	<u>2,694</u>	<u>43,568</u>
Depreciation						
At 1 January 2016	6,438	530	15,993	274	2,622	25,857
Charge for the year	446	95	4,267	153	82	5,043
Impairment	-	-	180	-	-	180
Eliminated on disposal	-	(211)	(880)	(171)	(2)	(1,264)
At 31 December 2016	<u>6,884</u>	<u>414</u>	<u>19,560</u>	<u>256</u>	<u>2,702</u>	<u>29,816</u>
Net book value						
At 31 December 2016	<u>7,361</u>	<u>735</u>	<u>5,644</u>	<u>20</u>	<u>(8)</u>	<u>13,752</u>
At 31 December 2015	<u>7,807</u>	<u>343</u>	<u>5,673</u>	<u>31</u>	<u>8</u>	<u>13,862</u>

The value of land not depreciated for the group is £918,000 (2015: £918,000) and for the company is £806,000 (2015: £806,000).

Impairment reviews were made on the Fixed Assets in the period after which amounts of £957,000 Group and £180,000 Company (2015: £nil group and company) were written off to profit and loss.

13. Fixed asset investments

	Company 2015 £000	Company 2015 £000
Subsidiary undertakings	<u>32,091</u>	<u>51,365</u>

Subsidiary undertakings

	Company £000
Cost and net book value	
At 1 January 2016	51,365
Transferred to goodwill (note 11)	(6,837)
Written off to profit and loss	(12,437)
As at 31 December 2016	<u>32,091</u>

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

13. Fixed asset investments (continued)

The investment write off in the year relates to two of the UK business's, one of which was hived up to SGS United Kingdom Limited on 1 January 2016 and the second whose future direction is under review by management.

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	Registration number	Principal activity	Number of shares held	Type of share capital	Holding %
SGS M-Scan Limited +*	England & Wales	1414639	Life Sciences	139	Ordinary	100
SGS MIS Testing Limited +*	England & Wales	8382100	Testing and inspection services	200	Ordinary	100
SGS MIS Environmental Limited +*	England & Wales	4183187	Testing and inspection services	7,100	Ordinary	100
SGS Baseefa Limited +*	England & Wales	4305578	Testing and inspection services	1,352	Ordinary	100
SGS Vitrology Limited +*	England & Wales	SC306871	Life Sciences	3,901,377	Ordinary	100
SGS Correl Rail Limited +*/	England & Wales	4148618	Dormant	33	Ordinary	100
SGS Mineral Services UK Limited +*/	England & Wales	4356791	Dormant	100	Ordinary	100
SGS Emics Limited +*/	England & Wales	2999227	Dormant	92,825	Ordinary	100
SGS Roplex Limited +*/	England & Wales	2583238	Dormant	165	Ordinary	100
SGS Redwood (UK) Limited +*/	England & Wales	799263	Dormant	119,000	Ordinary	100
SGS Inspection Services Limited +*/	England & Wales	1838573	Dormant	40,000	Ordinary	100
SGS Strath Services Limited +*/	England & Wales	2463922	Dormant	50,000	Ordinary	100
Auto Marine Specialists Limited +*/	England & Wales	2119876	Dormant	500	Ordinary	100
SGS Telecommunications Europe Limited +*/	England & Wales	4165129	Dormant	500	Ordinary	100

+ Held directly by SGS United Kingdom Limited.

* The Registered office is Rossmore Business Park, Ellesmere Port, South Wirral, Cheshire, CH65 3EN

/ For the year ending 31 December 2016 subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

14. Stocks

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Raw materials and consumables	271	278	254	21
Work in progress	474	1,881	229	181
	<u>745</u>	<u>2,159</u>	<u>483</u>	<u>202</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 2016

15. Debtors

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Amounts falling due within one year:				
Trade debtors	18,562	17,485	15,168	12,582
Gross amount due from customers for contract work	1,794	2,260	1,736	1,943
Amounts owed by group undertakings	27,931	14,110	17,503	6,827
Other debtors and prepayments	2,150	2,463	1,834	2,155
Corporation tax asset	-	-	296	101
	<u>50,437</u>	<u>36,318</u>	<u>36,537</u>	<u>23,608</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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade creditors	3,013	4,284	2,339	2,685
Amounts owed to group undertakings	82,898	16,617	86,310	19,894
Corporation tax	650	512	-	-
Other taxation and social security	4,028	3,694	3,821	3,352
Accruals and deferred income	17,365	16,099	13,704	12,046
Derivative financial liabilities (note 19)	85	173	65	152
	<u>108,039</u>	<u>41,379</u>	<u>106,239</u>	<u>38,129</u>

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

17. Provisions for liabilities

	Deferred taxation £000	Restructuring Costs £000	Vacant properties £000	Total £000
Group				
At 1 January 2016	3,211	-	302	3,513
Created in the year	-	1,215	-	1,215
Utilisation of provision	-	-	(246)	(246)
Charge on profit on ordinary activities	1,533	-	-	1,533
Charge on other comprehensive income	(2,841)	-	-	(2,841)
	<u>1,903</u>	<u>1,215</u>	<u>56</u>	<u>3,174</u>
At 31 December 2016	1,903	1,215	56	3,174

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

17. Provisions for liabilities (continued)

	Deferred taxation £000	Restructuring Costs £000	Vacant properties £000	Total £000
Company				
At 1 January 2016	3,391	-	59	3,450
Created in the year	-	790	-	790
Utilisation of provision	-	-	(3)	(3)
Charge on profit on ordinary activities	1,606	-	-	1,606
Charge on other comprehensive income	(2,841)	-	-	(2,841)
	<u>2,156</u>	<u>790</u>	<u>56</u>	<u>3,002</u>
At 31 December 2016	2,156	790	56	3,002

Deferred tax is provided as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Defined benefit pension	(2,337)	(5,298)	(2,156)	(5,298)
Other timing differences	181	2,087	-	1,907
	<u>(2,156)</u>	<u>(3,211)</u>	<u>(2,156)</u>	<u>(3,391)</u>
Deferred tax liability	(2,156)	(3,211)	(2,156)	(3,391)

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.

Finance Act No. 2 2015, which was substantively enacted on 26 October 2015, includes provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. Accordingly these rates have been applied when calculating deferred tax assets and liabilities as at 31 December 2016.

In addition, Finance Bill 2016 was substantively enacted on 6 September 2016 which introduced a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. As this was substantively enacted at the 6th September 2016 these rates do not apply to the deferred tax position at 31 December 2016. There is no expiry date on timing differences, unused tax losses or tax credits.

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.

Restructuring costs

Restructuring costs relate to two items, one is the downsize of a small operation within SGS United Kingdom Limited. This is expected to complete in 2017. The other relates to property infrastructure in a subsidiary entity, the timing and payment amount is unknown.

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

18. Financial instruments

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

	Group 2016 £000	Group 2015 £000
Financial assets		
Measured at undiscounted amount receivable		
• Trade and other debtors (see note 15)	22,802	22,208
• Amounts due from group undertakings (see note 15)	27,931	14,110
	<u>50,733</u>	<u>36,318</u>
Financial liabilities		
Measured at fair value		
• Derivative financial liabilities (see note 16)	85	173
Measured at undiscounted amount payable		
• Trade and other creditors (see note 16)	25,352	24,589
• Amounts owed to group undertakings (see note 16)	82,898	16,617
	<u>108,335</u>	<u>41,379</u>

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

	Group 2016 £000	Group 2015 £000
Fair value gains and losses		
On derivative financial liabilities (see note 19)	<u>(85)</u>	<u>(129)</u>

19. Derivative financial instruments

	Group 2016 £000	Group 2015 £000
Liabilities		
Forward foreign currency contracts	<u>(85)</u>	<u>(173)</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.

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	
	2016 rate	2015 rate	2016 £000	2015 £000	2016 £000	2015 £000
Less than 3 months						
Sell EUR	0.852	0.738	1	(23)	-	(23)
Sell EUR	0.852	0.738	1	(5)	-	(5)
Buy USD	1.226	1.482	(64)	(119)	(65)	(120)
Buy USD	-	1.482	-	(4)	-	(4)

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

19. Derivative financial instruments (continued)

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	2016 rate	2015 rate	2016 £000	2015 £000	2016 £000	2015 £000
Sell EUR	0.852	0.738	-	(7)	-	(7)
Sell EUR	0.852	0.738	-	(7)	-	(7)
Buy USD	1.226	1.482	(4)	(3)	(4)	(3)
Buy USD	1.226	-	(1)	-	-	-
Sell EUR	0.852	0.738	-	(1)	-	(1)
Sell EUR	0.852	0.738	-	(1)	-	(1)
Buy USD	1.226	1.482	(5)	(1)	(6)	(1)
Buy USD	1.226	1.482	(10)	(1)	(10)	(1)
					(85)	(173)

Gains of £88,000 (2015: losses of £129,000) were recognised in the statement of comprehensive income.

20. Called-up share capital and reserves

	2016 £000	2015 £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.

21. Financial commitments

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

	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
- within one year	900	1,652	861	1,476
- between one and five years	1,466	1,074	1,474	1,403
- after five years	196	-	825	-
	2,562	2,726	3,160	2,879
Company				
- within one year	512	1,652	429	1,476
- between one and five years	868	1,074	365	1,403
- after five years	196	-	2	-
	1,576	2,726	796	2,879

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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 2016 was £3,031,000 (2015: £3,045,000). The amount of contributions outstanding at the year end was £nil (2015: £nil).

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 2016 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	
	2016	2015
	%	%
Key assumptions used:		
Discount rate	2.90	3.90
Future pension increases	3.75	3.50
Rate of increase in salaries	3.45	3.66
Inflation	3.45	3.20

Mortality assumptions:

The mortality assumptions used at 31 December 2016 are based on the S2NXA tables, with the CMI_2015 projections and a 1 year 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.

	Valuation at	
	2016	2015
	years	years
Retiring today:		
Males	21.20	21.20
Females	22.87	22.87
Retiring in 20 years:		
Males	21.25	21.25
Females	22.65	22.65

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

	2016	2015
	£000	£000
Current service cost	(981)	(1,162)
Net finance income	1,170	444
	189	(718)
Recognised as other comprehensive (expense)/income	(16,714)	3,027
Total comprehensive (expense)/income relating to defined benefit scheme	(16,525)	2,309

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

22. Retirement benefit schemes (continued)

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:

	2016 £000	2015 £000
Present value of defined benefit obligations	(170,854)	(134,637)
Fair value of scheme assets	184,599	164,072
Net asset recognised in the balance sheet	13,745	29,435

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

	2016 £000	2015 £000
At 1 January	134,637	142,356
Service cost	981	1,162
Interest cost	5,139	5,043
Actuarial losses / (gains)	35,255	(8,696)
Contributions from scheme participants	324	345
Benefits paid	(5,482)	(5,536)
Premiums paid	-	(37)
At 31 December	170,854	134,637

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

	2016 £000	2015 £000
At 1 January	164,072	152,379
Interest income	6,309	5,487
Expected return on plan assets	18,368	(6,084)
Contributions from the employer	1,008	17,518
Contributions from scheme participants	324	345
Benefits paid	(5,482)	(5,536)
Premiums paid	-	(37)
At 31 December	184,599	164,072

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

	Fair value of assets	
	2016 £000	2015 £000
Cash and cash equivalents	895	2,865
Equity instruments	37,368	31,964
Debt instruments	66,184	62,198
Other	80,152	67,045
	184,599	164,072

SGS United Kingdom Limited

Notes to the financial statements

For the year ended 31 December 2016

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 2016, the group's joint and several contingent liability was £1,000,000 (2015: £1,000,000). The directors do not consider that any liability will arise under the guarantee.

24. Related party transactions

The company has taken advantage of the exemptions provided by FRS 102 section 33 'Related Party Disclosures' and has not disclosed details of transactions with members of the SGS SA group of companies, as all transactions are with members of the group who are 100% owned subsidiaries of SGS SA.

25. Controlling party

The immediate parent undertaking of SGS United Kingdom Limited is SGS Holding UK Limited. The ultimate parent company and controlling party of SGS United Kingdom Limited is SGS SA, a company incorporated in Switzerland. The parent undertaking of the smallest group which contains the company is SGS Holding UK Limited, a company incorporated in England and Wales, copies of the accounts are available at Companies House, Cardiff. The parent undertaking of the largest group which includes the company for which group accounts are prepared is SGS SA. Copies of the financial statements of SGS SA are available from 1 Place des Alpes, B.P.2152, CH-1211 Genève 1, Switzerland, which is the registered office of SGS SA.