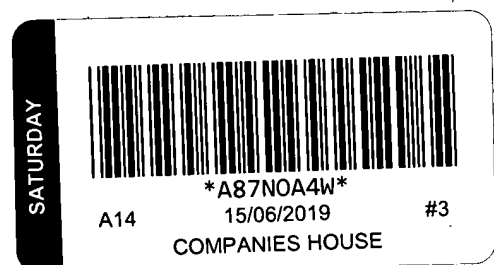


Registered number: 01193985

**SGS United Kingdom Limited**

**Annual report and financial statements**

**for the year ended 31 December 2018**



# **SGS United Kingdom Limited**

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## **SGS United Kingdom Limited**

### **Officers and professional advisers**

#### **DIRECTORS**

P Earl (Resigned June 2018)  
J Griffiths (Resigned February 2019)  
J McGurk (Appointed July 2018)

#### **COMPANY 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  
Statutory Auditor  
Liverpool  
L2 3PG

## **SGS United Kingdom Limited**

### **Strategic report**

The directors are pleased to present their Strategic Report for the year ended 31 December 2018.

#### **PRINCIPAL ACTIVITY**

The principal activity of the company and its subsidiaries during the year under review remained that of independent testing, inspection, verification, employment agency services, and certification services.

#### **REVIEW OF BUSINESS AND KEY PERFORMANCE INDICATORS**

The 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 and focus made on exiting low margin operations.

As shown in the statement of comprehensive income, turnover has increased to £105,984,000 (2017: £102,115,000). Revenue growth was gained from largely subcontracted work and with this and closure costs of an operation in Plymouth due to client turning insolvent and reduced volumes of conformity services due to a change in overseas regulations lead to a reduced gross margin, £26,210,000 (26%) in 2017 to £23,722,000 (22%) in 2018.

Average employee numbers have decreased in the year to 1,018 heads (2017: 1,044 heads). The balance sheet shows a decrease in net assets to £29,673,000 (2017: £32,480,000) due mainly to impairment of investments in subsidiary companies.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The company operates in a competitive trading environment. The company 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 company's product offering and its relationship with its customers.

A reasonable proportion of the company'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 company also manages this risk by the maintenance of foreign currency bank accounts and the use of forward foreign exchange contracts.

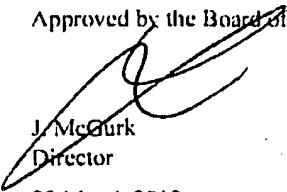
Company risks are discussed in the Annual Report of the ultimate parent, SGS SA, which does not form part of this report.

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

#### **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.

Approved by the Board of Directors and signed on behalf of the Board:



J. McGurk  
Director

29 March 2019

## **SGS United Kingdom Limited**

### **Directors' report**

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2018.

#### **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 has 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.

The directors have also considered any impacts on the UK's exit from the EU and concluded due to the large client mix and the varying service portfolio, the directors have no concerns of any significant impact on the future of the business.

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

#### **Financial risk management objectives and policies**

The company'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 company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

#### ***Cash flow risk***

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The company 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 company's principal financial assets are bank balances and cash, trade and other receivables, and investments.

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

#### ***Liquidity risk***

The company have sufficient cash reserves.

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

#### **Dividends**

The directors do not recommend the payment of a dividend (2017: Not Recommended).

## **SGS United Kingdom Limited**

### **Directors' report (continued)**

#### **Directors**

The directors, who served throughout the year and thereafter, unless otherwise stated were as follows:

P Earl (Resigned June 2018)  
J Griffiths (Resigned February 2019)  
J McGurk (Appointed July 2018)

#### **Disabled employees**

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

#### **Employee consultation**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings 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. McGurk  
Director

29 March 2019

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 UK 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 company and of the profit or loss of the company for that period.

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

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

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

## **SGS United Kingdom Limited**

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

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of SGS United Kingdom Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



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

**Other information (continued)**

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

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

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

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

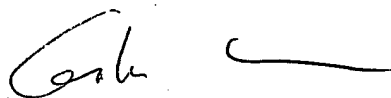
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**Use of our report**

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



Giles Murphy FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Liverpool, United Kingdom  
29 March 2019

# SGS United Kingdom Limited

## Statement of comprehensive income For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	3	105,984	102,115
Cost of sales		(82,262)	(75,905)
<b>Gross profit</b>		<b>23,722</b>	<b>26,210</b>
Administrative expenses		(13,010)	(11,902)
<b>Operating profit</b>		<b>10,712</b>	<b>14,308</b>
Exceptional expenses	4	(9,933)	-
<b>Profit before interest and taxation</b>		<b>779</b>	<b>14,293</b>
Interest payable and similar expenses	5	733	427
<b>Profit before taxation</b>	6	<b>1,512</b>	<b>14,735</b>
Tax on profit	9	(1,587)	(2,857)
<b>(Loss)/profit for the financial year</b>		<b>(75)</b>	<b>11,878</b>
Re-measurement of net defined benefit asset	22	(3,292)	7,602
Tax relating to components of other comprehensive income	17	560	(1,293)
<b>Other comprehensive (loss)/ income</b>		<b>(2,732)</b>	<b>6,309</b>
<b>Total comprehensive (loss)/ income</b>		<b>(2,807)</b>	<b>18,187</b>

All of the activities relate to continuing activities.

# SGS United Kingdom Limited

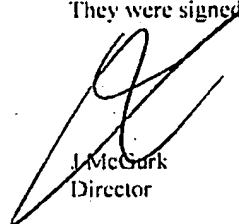
## Balance sheet

As at 31 December 2018

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Intangible assets	11	6,036	6,175
Tangible assets	12	13,044	13,892
Investments	13	27,142	32,782
		<u>46,222</u>	<u>52,849</u>
<b>Current assets</b>			
Stocks	14	1,056	684
Debtors	15	59,831	55,305
Cash at bank and in hand		21,276	15,323
Pension Asset	22	16,521	21,845
		<u>98,684</u>	<u>93,157</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(112,424)</u>	<u>(109,689)</u>
<b>Net current liabilities</b>		<u>(13,740)</u>	<u>(16,532)</u>
<b>Total assets less current liabilities</b>		<u>32,482</u>	<u>36,317</u>
<b>Provisions for liabilities</b>	17	<u>(2,809)</u>	<u>(3,837)</u>
<b>Net assets</b>		<u>29,673</u>	<u>32,480</u>
<b>Capital and reserves</b>			
Called-up share capital	20	8,000	8,000
Capital contribution reserve	20	13,809	13,809
Profit and loss account	20	7,864	10,671
<b>Shareholders' funds</b>		<u>29,673</u>	<u>32,480</u>

The financial statements of SGS United Kingdom Limited registered number 01193985 were approved by the board of directors and authorised for issue on 29 March 2019.

They were signed on its behalf by:



J. McGarrk  
Director

# SGS United Kingdom Limited

## Statement of changes in equity

For the year ended 31 December 2018

	Called-up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
<b>At 1 January 2017</b>	8,000	13,809	(7,516)	14,293
Profit for the financial year	-	-	11,878	11,878
Re-measurement of net defined benefit asset	-	-	7,602	7,602
Tax relating to items of other comprehensive income	-	-	(1,293)	(1,293)
<b>Total comprehensive income</b>	-	-	18,187	18,187
<b>At 31 December 2017</b>	8,000	13,809	10,671	32,480
Loss for the financial year	-	-	(75)	(75)
Re-measurement of net defined benefit asset	-	-	(3,292)	(3,292)
Tax relating to items of other comprehensive income	-	-	560	560
<b>Total comprehensive loss</b>	-	-	(2,807)	(2,807)
<b>At 31 December 2018</b>	8,000	13,809	7,864	29,673

## **SGS United Kingdom Limited**

### **Notes to the financial statements**

For the year ended 31 December 2018

#### **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 the United Kingdom under the Companies Act 2006 and is domiciled and registered in England and Wales, registration number 01193985. The registered office and principal place of business is Rossmore Business Park, Ellesmere Port, Cheshire, CH65 3EN.

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. The company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 not to prepare group accounts on the grounds that SGS United Kingdom Limited is consolidated in the financial statements of its ultimate parent company, SGS SA, a company incorporated in Switzerland. Copies of the financial statements of SGS SA are available from 1 Place des Alpes, B.P. 2152, CH-1211 Geneve 1, Switzerland. Exemptions have been taken in these separate company financial statements in relation to share-based payments, financial instruments, the presentation of a cash flow statement and remuneration of key management personnel.

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and in accordance with the Companies' Act 2006. The principal accounting policies are summarised below.

The financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value, and are presented in sterling (£).

##### **b. Going concern**

The company'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 company's forecasts and projections, taking account of reasonably possible changes in trading performance, provide the directors with a reasonable expectation that the company 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.

##### **c. Intangible assets – goodwill, 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.

##### **d. 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:

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

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.

#### e. Financial instruments

Financial assets and financial liabilities are recognised when the company 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 company 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 company 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:

- 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.
- 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.
- 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).
- 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.
- 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.
- 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).

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

##### e. Financial instruments (continued)

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 company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

##### (iv) Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk. The company 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.

#### f. Impairment of assets

##### (i) 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.

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.



## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

##### *f. Impairment of assets (continued)*

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.

##### *g. 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.

##### *h. 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 company'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 company 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.

## **SGS United Kingdom Limited**

### **Notes to the financial statements (continued)**

For the year ended 31 December 2018

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

##### **h. Taxation (continued)**

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.

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

Deferred tax assets and liabilities are offset only if: a) the company 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.

##### **i. 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.

##### **j. 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 company, 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.

##### **k. 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

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 1. Accounting policies (continued)

##### k. Foreign currency (continued)

- in the case of the 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.

##### l. Leases

###### *The company 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.

##### m. 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 company'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.

##### n. Dividend and interest income

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 Company 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 company 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 company'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. The directors have considered this and do not deem there are any critical judgements in applying the Company's accounting policies.

##### *Key source of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

# SGS United Kingdom Limited

## Notes to the financial statements (continued)

For the year ended 31 December 2018

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

#### *Work in progress*

The Stocks balance of £1,056,000 (2017: £684,000) includes work in progress of £721,000 (2017: £396,000) which is work that is partially completed on which revenue has been recognised. Whilst a range of outcomes is reasonably possible the maximum potential reduction in work in progress is £721,000 (2017: £396,000).

#### *Impairment of intangible assets*

Intangible assets are held at a net book value of £6,036,000 (2017: £6,175,000). Determining whether intangible assets are impaired requires an estimation of their value in use to the company. 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. Whilst a range of outcomes is reasonably possible the maximum potential impairment in intangible assets is £ 6,036,000 (2017: £6,175,000).

#### *Estimations of employee retirement benefit obligations*

The company maintains two defined benefit pension plans. The current value of the pension asset is £16,521,000 (2017: 21,845,000) 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. Whilst a range of outcomes is reasonably possible the maximum potential reduction in the pension asset is £16,521,000 (2017: 21,845,000). 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 company's turnover by class of business is set out below.

	2018 £000	2017 £000
<b>Turnover:</b>		
Inspection, testing, certification & laboratory services	105,984	102,115
	<u>105,984</u>	<u>102,115</u>

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

	2018 £000	2017 £000
<b>Turnover:</b>		
United Kingdom	78,005	77,980
Rest of the world	27,979	24,135
	<u>105,984</u>	<u>102,115</u>

### 4. Exceptional expenses

	2018 £000	2017 £000
Write-off of group investments and loan	7,710	-
GMP equalisation on pension	2,223	-
	<u>9,933</u>	<u>-</u>

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 4. Exceptional expenses (continued)

Exceptional expenses consist of a group loan receivable of £2,761,000 which was deemed unrecoverable and therefore fully provided for in the year. Also in the year an amount of £4,949,000 was charged to the Profit and Loss account for the write off and impairment of investments in subsidiary undertakings. As a result of the SGS United Kingdom Limited Retirements Benefit Plan having to equalise its benefits to address inequalities in the calculations of Guaranteed Minimum Pensions following the High Court ruling on 26 October 2018 an amount of £2,223,000 was also charged as an exceptional item in the year.

#### 5. Interest payable and similar expenses

	2018 £000	2017 £000
Interest receivable on group loans	146	18
Net interest on defined benefit liability (see note 22)	587	409
	<u>733</u>	<u>427</u>

#### 6. Profit before taxation

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

	2018 £000	2017 £000
Depreciation of tangible fixed assets	2,263	2,500
Amortisation of intangible assets	830	794
Operating lease rentals	2,560	2,747
Cost of stock recognised as an expense	679	619
Loss on disposal of fixed assets	111	20
(Gains)/loss on foreign currency transactions	(1)	50
Auditor's remuneration:		
- for the audit of the company's financial statements	57	57
Non-audit services:		
- taxation compliance services	30	33
	<u>30</u>	<u>33</u>

Amortisation of intangible assets and impairment of tangible assets are included in administrative expenses.

#### 7. Staff numbers and costs

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

	2018 Number	2017 Number
Production/inspection	717	752
Administration	240	232
Overhead	61	60
	<u>1,018</u>	<u>1,044</u>

# SGS United Kingdom Limited

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 7. Staff numbers and costs (continued)

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	43,493	43,854
Social security costs	4,717	4,717
Other pension costs (see note 22)	2,795	2,202
	<u>51,005</u>	<u>50,773</u>

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

### 8. Directors' remuneration and transactions

	2018 £000	2017 £000
<i>Directors' remuneration</i>		
Emoluments	489	325
Company contributions to money purchase pension schemes	28	16
	<u>517</u>	<u>341</u>

	2018 Number	2017 Number
<b>The number of directors who:</b>		
Are members of a defined benefit pension scheme	1	1
Are members of a money purchase pension scheme	2	1

	2018 £000	2017 £000
<b>Remuneration of the highest paid director:</b>		
Emoluments	263	227
Pension	17	-

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 9. Tax on profits

The tax charge comprises:

	2018 £000	2017 £000
<b>Current tax on profit</b>		
UK corporation tax:		
- Current year charge	3,014	2,630
- Adjustment in respect of prior years	(385)	51
- Foreign tax relief	(459)	(278)
<b>Total UK tax</b>	<b>2,170</b>	<b>2,403</b>
Overseas corporation tax:		
- Current year charge	461	281
<b>Total current tax</b>	<b>2,631</b>	<b>2,684</b>
<b>Deferred tax</b>		
- Origination and reversal of timing differences	(1,122)	216
- Effect of change in tax rate on opening liability	78	(25)
- Adjustment in respect of prior years	-	(18)
<b>Total deferred tax</b>	<b>(1,044)</b>	<b>173</b>
<b>Total tax on profit</b>	<b>1,587</b>	<b>2,857</b>

The standard rate of tax applied to reported profit on ordinary activities is 19% (2017: 19.25%).

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:

	2018 £000	2017 £000
<b>Profit before tax</b>	<b>1,512</b>	<b>14,735</b>
Tax on profit at standard UK corporation tax rate of 19% (2017: 19.25%)	287	2,831
Effects of:		
- Expenses not deductible for tax purposes	1,652	117
- Effects of overseas tax rates	2	2
- Company relief	(47)	(248)
- Prior year adjustment	(385)	180
- Tax rate change	78	(25)
<b>Total current tax</b>	<b>1,587</b>	<b>2,857</b>

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 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 company 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 company 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 company 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 2017	Granted during the year	Forfeited during the year	Exercised during the year	Cancelled during the year	Options outstanding at 31 December 2018
	From	To	Number	Number	Number	Number	Number	Number
SGSPF – Ordinarily Issued	Jan-17	Jan-19	27,832	-	-	(20,500)	(7,332)	-
SGSBB – Ordinarily Issued 2015	Jan-18	Jan-20	41,524	-	-	(41,524)	-	-
			69,356	-	-	(62,024)	(7,332)	-

In 2018, 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 2017	Granted during the year	Forfeited during the year	Exercised during the year	Cancelled during the year	Shares Outstanding at 31 December 2018
		Number	Number	Number	Number	Number	Number
SGS-PSU-15	Jan-18	1,253	147	-	(1,400)	-	-
SGS-PSU-16	Jan-19	131	-	-	-	(5)	126
SGS-PSU-17	Jan-20	179	-	(12)	-	(15)	152
SGS-PSU-18	Jan-21	-	843	-	-	-	843
		1,563	990	(12)	(1,400)	(20)	1,121

In 2018, a total of 990 Performance Share Units of the 2018 Long-Term incentive Plan were granted to selected employees.



## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 11. Intangible fixed assets

	<b>Goodwill £000</b>
<b>Cost</b>	
At 1 January 2018	18,551
Goodwill transferred from investment on hive up of SGS Leicester in the year	691
	<hr/>
At 31 December 2018	19,242
	<hr/>
<b>Amortisation</b>	
At 1 January 2018	12,376
Charge for the year	830
	<hr/>
At 31 December 2018	13,206
	<hr/>
<b>Net book value</b>	
At 31 December 2018	6,036
	<hr/>
At 31 December 2017	6,175
	<hr/>

# SGS United Kingdom Limited

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 12. Tangible fixed assets

	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
<b>Cost</b>						
At 1 January 2018	15,680	1,095	25,677	276	2,787	45,515
Additions	80	1	1,430	-	-	1,511
Hive up of subsidiary	-	74	96	-	17	187
Disposals	-	-	(278)	(121)	-	(399)
At 31 December 2018	<u>15,760</u>	<u>1,170</u>	<u>26,925</u>	<u>155</u>	<u>2,804</u>	<u>46,814</u>
<b>Depreciation</b>						
At 1 January 2018	7,331	441	20,794	270	2,787	31,623
Charge for the year	445	90	1,721	6	1	2,263
Hive up of subsidiary	-	74	74	-	16	164
Eliminated on disposal	-	-	(159)	(121)	-	(280)
At 31 December 2018	<u>7,776</u>	<u>605</u>	<u>22,430</u>	<u>155</u>	<u>2,804</u>	<u>33,770</u>
<b>Net book value</b>						
At 31 December 2018	<u>7,984</u>	<u>565</u>	<u>4,495</u>	<u>-</u>	<u>-</u>	<u>13,044</u>
At 31 December 2017	<u>8,349</u>	<u>654</u>	<u>4,883</u>	<u>6</u>	<u>-</u>	<u>13,892</u>

The value of land not depreciated for the company is £1,044,000 (2017: £1,044,000).

Included within tangible fixed assets are £39,000 relating to assets which are not yet being depreciated.

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 13. Fixed asset investments

	2018 £000	2017 £000
Subsidiary undertakings	27,142	32,782
	<u>27,142</u>	<u>32,782</u>

#### *Subsidiary undertakings*

	£000
Cost and net book value	
At 1 January 2018	32,782
Investments transferred to goodwill on hive up of SGS Leicester	(691)
Written off to P&L in the year	<u>(4,949)</u>
As at 31 December 2018	<u>27,142</u>

The £4,949,000 represents the net investment write off from three subsidiaries that were liquidated in the year and an element of an impairment made to the investment value of SGS Emics limited.

#### *Principal company investments*

The company has 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 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 +-	Scotland	SC306871	Life Sciences	3,901,377	Ordinary	100
SGS Leicester +* /	England & Wales	01962425	Technical testing and analysis	100	Ordinary	100
SGS M-Scan Limited +*	England & Wales	1414639	Life Sciences	139	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

+ 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 2018 subsidiaries of the Company were entitled to exemption from audit under s480 of the Companies Act 2006 relating to dormant companies.

- The registered office is SGS House, Wellheads Drive, Dyce, Aberdeen, AB21 7GQ.

# SGS United Kingdom Limited

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 14. Stocks

	2018 £000	2017 £000
Raw materials and consumables	335	288
Work in progress	721	396
	<u>1,056</u>	<u>684</u>

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

### 15. Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade debtors	17,353	16,753
Gross amount due from customers for contract work	1,094	1,766
Amounts due from group undertakings	39,580	35,124
Other debtors and prepayments	1,017	1,570
Deferred tax asset	787	92
	<u>59,831</u>	<u>55,305</u>

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

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

	2018 £000	2017 £000
Trade creditors	3,076	3,222
Amounts owed to group undertakings	92,864	88,360
Corporation tax	510	397
Other taxation and social security	3,710	3,543
Accruals and deferred income	12,227	14,163
Derivative financial liabilities (note 19)	37	4
	<u>112,424</u>	<u>109,689</u>

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

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 17. Provisions for liabilities

	Deferred taxation £000	Restructuring Costs £000	Vacant properties £000	Total £000
<b>Company</b>				
At 1 January 2018	3,714	97	26	3,837
Utilisation of provision	(905)	(97)	(26)	(1,028)
At 31 December 2018	<u>2,809</u>	<u>-</u>	<u>-</u>	<u>2,809</u>

Deferred tax is provided as follows:

	2018 £000	2017 £000
Defined benefit pension	(2,809)	(3,714)
Deferred tax liability	<u>(2,809)</u>	<u>(3,714)</u>

#### *Deferred taxation*

Deferred tax assets and liabilities are offset only where the company 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 company.

Finance Act 2016, which was substantively enacted on 15 September 2015, includes provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

Finance Bill 2017 was substantively enacted on 6 September 2017 which introduced a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. 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, which completed in 2017 and the closure of the Wokingham operation and transfer of business within the SGS network. 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 (continued)

For the year ended 31 December 2018

#### 18. Financial instruments

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

	2018 £000	2017 £000
<b>Financial assets</b>		
Debt instruments measured at amortised cost		
• Trade and other debtors (see note 15)	17,353	16,753
• Amounts due from company undertakings (see note 15)	39,580	35,124
	<u>56,933</u>	<u>51,877</u>
<b>Financial liabilities</b>		
Measured at fair value		
• Derivative financial liabilities (see note 16)	37	4
Measured at amortised cost		
• Trade and other creditors (see note 16)	3,076	3,222
• Amounts owed to company undertakings (see note 16)	92,864	88,360
	<u>95,977</u>	<u>91,586</u>

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

	2018 £000	2017 £000
<b>Fair value gains and losses</b>		
On derivative financial liabilities (see note 19)	<u>(33)</u>	<u>80</u>

#### 19. Derivative financial instruments

	2018 £000	2017 £000
<b>Liabilities</b>		
Forward foreign currency contracts	<u>(37)</u>	<u>(4)</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:

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 19. Derivative financial instruments (continued)

Outstanding contracts	Average contractual exchange rate		Notional value		Fair Value	
	2018 rate	2017 rate	2018 £000	2017 £000	2018 £000	2017 £000
Less than 3 months						
Sell EUR	0.892	0.886	(14)	(8)	(14)	(8)
Sell EUR	0.892	0.886	(3)	(5)	(3)	(5)
Buy USD	1.266	1.351	(20)	9	(20)	9
					(37)	(4)

Losses of £33,000 (2017: gains of £80,000) were recognised in the statement of comprehensive income.

The company has entered into forward foreign currency contracts with the parent company, these contracts are designed to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges. The hedged cash flows are expected to occur and to affect profit or loss within the next 1 month.

#### 20. Called-up share capital and reserves

	2018 £000	2017 £000
<b>Allotted, called-up and fully-paid</b>		
8,000,000 ordinary shares of £1 each	8,000	8,000

The 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 company 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:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
<b>Company</b>				
- within one year	399	986	470	1,079
- between one and five years	281	717	501	481
- after five years	150	-	-	-
	830	1,703	971	1,560

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 22. Retirement benefit schemes

##### Defined contribution schemes

The company 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 2018 was £1,423,000 (2017: £1,251,000). The amount of contributions outstanding at the year-end was £331,000 (2017: £290,000).

##### Defined benefit schemes

The company 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, for FRS 102 purposes, were carried out at 31 December 2018 by Ms Michelle Doman, 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	
	2018	2017
	%	%
Key assumptions used:		
Discount rate	2.90	2.60
Future pension increases	3.20	3.60
Rate of increase in salaries	3.50	3.10
Inflation	3.20	3.10

##### Mortality assumptions:

The mortality assumptions used at 31 December 2018 are based on the S2NXA tables, with the CMI\_2016 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	
	2018	2017
	years	years
Retiring today:		
Males	22.00	21.26
Females	22.00	21.26
Retiring in 20 years:		
Males	23.15	22.97
Females	23.15	22.97

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

	2018	2017
	£000	£000
Current service cost	(1,080)	(731)
Net finance income	587	409
Past service cost	(2,223)	-
	<u>(2,716)</u>	<u>(322)</u>
Recognised as other comprehensive (loss)/ income	(3,292)	7,602
Total comprehensive (loss)/ income relating to defined benefit scheme	<u>(6,008)</u>	<u>7,280</u>



# SGS United Kingdom Limited

## Notes to the financial statements (continued)

For the year ended 31 December 2018

### 22. Retirement benefit schemes (continued)

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

	2018 £000	2017 £000
Present value of defined benefit obligations	(149,537)	(158,881)
Fair value of scheme assets	166,058	180,726
Net asset recognised in the balance sheet	<u>16,521</u>	<u>21,845</u>

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

	2018 £000	2017 £000
At 1 January	158,881	170,854
Service cost	1,080	731
Interest cost	4,077	4,873
Actuarial losses	(8,656)	146
Contributions from scheme participants	298	311
Settlement payments from plan assets	-	(12,967)
Benefits paid	(8,487)	(4,555)
Experience adjustments	111	(512)
Past service costs	2,233	-
At 31 December	<u>149,537</u>	<u>158,881</u>

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

	2018 £000	2017 £000
At 1 January	180,726	184,599
Interest income	4,664	5,288
Expected return on plan assets	(12,065)	7,006
Contributions from the employer	922	1,044
Contributions from scheme participants	298	311
Benefits paid	(8,487)	(4,555)
Settlement payments from plan assets	-	(12,967)
At 31 December	<u>166,058</u>	<u>180,726</u>

## SGS United Kingdom Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2018

#### 22. Retirement benefit schemes (continued)

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

	Fair value of assets	
	2018 £000	2017 £000
Cash and cash equivalents	3,057	649
Equity instruments	52,314	39,115
Debt instruments	110,687	99,858
Other	-	41,104
	<u>166,058</u>	<u>180,726</u>

#### 23. Contingent liabilities

The company 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 2018, the company's joint and several contingent liability was £1,000,000 (2017: £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 company 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 registered office of which is the same as SGS United Kingdom Limited and is given on page 1. 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 and largest company 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.