

**ENVIRONMENTAL SCIENTIFICS GROUP
LIMITED**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

Registered Company Number 2880501

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**Annual report and financial statements
for the year ended 31 December 2016**

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ENVIRONMENTAL SCIENTIFICS GROUP LIMITED

DIRECTORS AND ADVISERS

For the year ended 31 December 2016

Directors

N Sleeth
S Hammond
P J H Ball
I Sparks
A C Bolter
J Murphy

Registered Office

ESG House
Bretby Business Park
Ashby Road
Bretby
Burton-on-Trent
DE15 0YZ

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Principal Bankers

Barclays Bank plc
1 Churchill Place
Canary Wharf
London E14 5HP

Solicitors to the Company

Travers Smith
10 Snow Hill
London EC1A 2AL

Registered company number

2880501

Website

www.esg.co.uk

Strategic Report for the year ended 31 December 2016

The directors present their strategic report of the Company for the year ended 31 December 2016.

Strategy and business model

Environmental Scientifics Group Limited's (ESG) mission is to be its customers' 'Leading partner for technical expertise and service'. ESG is the UK's leading provider of testing, inspection and compliance services, providing comprehensive solutions to a broad range of clients operating in the Infrastructure, Built Environment and Energy & Waste sectors in particular.

ESG offers an unrivalled range of services in the market to more than 5,000 customers in the UK. We pride ourselves on our client-focussed approach and continual drive to exceed expectations through our technical expertise, service, operational excellence, and technological innovation.

The business structures its operating activities as follows, aligned to the key market sectors served:

i) Infrastructure

ESG offers the widest range of testing, inspection and compliance services in the UK to every stage in the infrastructure project lifecycle. From preliminary geotechnical investigations and soil investigations to foundation and materials testing, our services play a vital role in delivering projects safely, on time and to budget.

ii) Built Environment

ESG delivers peace of mind by helping clients conform to health and safety obligations and manage environmental risks. The Company works with a range of clients including facilities managers, property owners and property managers to maintain and optimise their compliance. Services include: emissions monitoring, environmental monitoring, occupational hygiene, health & safety, asbestos management & consulting, water consultancy and water equipment.

iii) Energy & Waste

A bespoke suite of testing, inspection and compliance tests, to support energy and waste projects and businesses nationwide: including solid fuel, power generation & transmission testing, environmental and specialist chemistry and analysis, nuclear chemistry and lubricant testing.

Review of the business

In 2016 ESG continued to build on the strong growth delivered in 2015, increasing revenue by 5.9% to £81.6m and EBITDA before exceptionals by 4.5% to £7.7m. These results were impacted by the affect of the ongoing decline in the coal sector on the Energy testing business however and after adjusting for the impact of this coal sector decline, the Company's EBITDA growth before exceptionals was an impressive 9.7%*.

The Company continued to invest significantly in its client service, technical and operational excellence solutions, such as turnaround time, during the year, further developing its in-house and fully integrated IT and operational technology platforms and advancing its leading positions in critical and time sensitive testing, inspection and compliance for Infrastructure, Built Environment and Energy & Waste clients. In total ESG invested £2.7m in capital projects in the year, of which £1.4m was incurred to further advance the Company's strategic objectives and deliver future growth.

The Company's results for the year and financial position at the balance sheet date are shown in the attached financial statements and have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The key financial measurements that are used and reported against within the businesses are revenue and earnings before interest, tax, depreciation, amortisation and exceptionals (adjusted EBITDA) and cash generation.

Revenue for the year ended 31 December 2016 was £81.6 million (2015: £77.1 million). EBITDA before exceptional items totalled £7.7 million (2015: £7.4 million) and Operating profit totalled £2.7 million (2015: £3.8 million), in line with management's expectations.

In addition to financial parameters, the business also uses a number of other key performance indicators ("KPI") to monitor performance in delivering its strategic performance targets; these include: fee earner and asset utilisation, productivity, reporting turnaround times, new business development, health and safety compliance and employee engagement and retention.

Exceptional costs of £1.8m were incurred during the year (2015: £0.6m) of which £0.5m (2015: £0.6m) related to restructuring of the Company's operations, mainly due to the decline in demand from the coal testing sector, £0.8m (2015: £nil) related to the creation of an onerous lease provision for the company's largest coal testing property and £0.5m (2015: £nil) in relation to the refinancing of the group.

Outlook

The Company provides an industry leading range of Inspection, Testing and Compliance services to a broad range of end markets and customers. It plans to deliver future growth, primarily through organic market share gain in its key sectors, by adding breadth and strength to its proposition - to increase the level of complementary services provided to large customers and projects. It will support this by providing best in class customer service to the high quality organisations it works with and by building scale and technically innovative solutions to increasingly complex needs, to increase its business with existing customers and attract new customers.

Market environment

The business operates across a number of sectors and markets, including:

- Infrastructure development and maintenance market: infrastructure materials testing; ground investigation; soils & water analysis and environmental services to customers in the utilities, road, rail and general infrastructure, refurbishment and maintenance sectors, including main contractors, local authorities and leading consultant engineers.
- Built environment: compliance related services including legionella monitoring, water safety treatments and advice, health & safety advice, asbestos surveys and monitoring, and occupational hygiene assessment to a broad range of clients in the private, public and local authority sectors, including industrial and commercial property owners, property managers and facilities managers.
- Energy & Waste testing, inspection and compliance tests, to support waste companies and energy suppliers, power generators and transmission & distribution networks, as well as energy regulation and risk management services.

The majority of the Company's sales are made in the UK, which is experiencing sustained economic growth. Double digit growth is forecast for the Infrastructure sector in particular in the coming years by a number of Industry associations and forecasting bodies, supported by the UK government's National Infrastructure Plan worth £41.1 billion and sustained investment in public and privately financed large scale infrastructure projects.

The broad portfolio of customers, services and markets served, reduces the company's exposure to individual customers or markets.

* Loss generated from coal, used to calculate growth in EBITDA before exceptionals adjusted for coal is: £0.1m (2015: Profit £0.2m).

Strategic Report for the year ended 31 December 2016 (continued)

Trends and factors affecting future development, performance or position

The Company's future development is dependent on a number of factors, including: macro-economic conditions; public and private investment and spending levels; legislative changes; the operational performance of the business; business development; retention and growth of business with customers; the competitor landscape, strategic acquisitions and on-going availability of financial resources from lenders and investors.

Operational review

There has been significant investment in developing the business operational infrastructure during the year, including the further development and roll out of the Company's integrated in-house IT and operational systems to standardise and improve Client Relationship Management, Quoting, Mobile Data Capture devices and applications, LIMS (Laboratory Information Management Systems) and giving clients' online and real time access to all of their projects and data through a dedicated client portal and management tool.

Essential contractual or other arrangements

The Company has a number of important relationships with its customers, suppliers and bankers. These relationships are managed by key Managers and Directors.

The primary operational resources utilised by the business are its skilled and valued workforce and its portfolio of leasehold properties. The largest and most significant property is the site of the Company's laboratory facilities and head office at Bretby, near Burton Upon Trent which is on a long term lease with more than 5 years remaining at December 2016.

A range of other resources are procured, e.g. consumables, vehicles, plant & equipment and IT services, however no critical dependencies have been identified on any single supplier.

Principal risk and uncertainties

The Company is exposed to a variety of risks and actively manages them through its risk management procedures. While risk cannot be eliminated altogether, actions are taken to mitigate them wherever possible through the establishment and testing of key controls. As a matter of policy, the Company does not enter into speculative activities.

The key risks that the Company is exposed to include but are not limited to:

- damage to the Company's reputation as a leader in testing and inspection services;
- exposure to uninsured environmental or commercial claims and liabilities;
- damage to the environment or to the health and safety of employees, customers or the public resulting from the company's activities;
- loss of use of intellectual property;
- loss of use of key physical assets, including plant, property or equipment;
- deterioration in cash flow and/or interest rate fluctuations, hindering the company's ability to support the Group to service and repay its indebtedness and interest;
- loss of availability of funding from the Group's lenders and/or shareholders.

In accordance with its risk management guidelines, the Company raises awareness of business risks at all operational board levels, and encourages all management teams to assess and minimise risk through the implementation and testing of key controls.

The Company ensures that it has appropriate insurance cover in respect of all essential liability and claims risks.

Where the Company is exposed to financial risks due to movements in exchange and interest rates, these are mitigated through the use of derivative hedging instruments at the ultimate holding company level as appropriate, which the Company never enters into for speculative purposes.

This report was approved by the board and signed on its behalf by:



A C Bolter
Director
26 April 2017

Directors' Report for the year ended 31 December 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

Results and dividends

The results on ordinary activities, before taxation, amounted to a profit of £1,748,000 (2015: £2,810,000).

The directors do not recommend the payment of a dividend (2015: £nil).

Insurance of directors

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

N Sleeth
S Hammond
P J H Ball
I Sparks
A C Bolter
J Murphy

Employees and social responsibilities

The Company is committed to conducting its business in an ethical and socially responsible manner. We commit to acting in an environmentally responsible manner in regard to our operations, products and services and we expect all our suppliers, employees and partners to act in the same manner.

The Company seeks to involve its employees in its corporate objectives, plans and performance and in other relevant matters of interest to employees through various communication methods, including regular employee meetings and an employee newsletter. The directors consider there to be a good relationship between employees and management. The Company is an equal opportunities employer and does not discriminate in the recruitment and promotion of staff, including applicants who are disabled. If an employee becomes disabled it is the policy, wherever practicable, to provide continued employment. Where applicable, the Company encourages the involvement of employees in the Company performance through an employee share scheme or by some other means.

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining its performance. The Company encourages the involvement of employee's by means of strategy sessions and announcements via the intranet and e-mails as appropriate.

Disabled policy

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Independent Auditors

The directors will place a resolution before the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors of the company for the ensuing year.

Financial risk management

The Company's objective regarding financial risk management is to keep exposure of price risk, credit risk, liquidity risk and cash flow risk to a minimum. In the opinion of the directors the exposure to financial risks has been assessed and at present is deemed to be low and at an acceptable level for the Company's operations.

Directors' Report for the year ended 31 December 2016 (continued)

Future Developments

Following the acquisition of the Company's ultimate parent by the Socotec Group on 23rd March 2017, the Company is particularly well placed to continue developing its position as a leading provider of testing, inspection and compliance services, offering a broad range of services to its customers, primarily through organic growth, supported by strategic acquisitions which fit closely with its strategy and that of the Socotec Group. Future developments are discussed further in the strategic report.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board and signed on its behalf by:



A C Bolter
Director
26 April 2017

Independent auditors' report to the members of Environmental Scientifics Group Limited

Report on the financial statements

Our opinion

In our opinion, Environmental Scientifics Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Environmental Scientifics Group Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

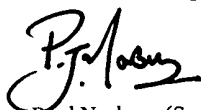
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Paul Norbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
26 April 2017

Income Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue	4	81,614	77,073
Cost of sales		(48,905)	(44,559)
Gross profit		32,709	32,514
Administrative expenses (including exceptional costs of £1,778,545 (2015: £596,993))		(29,993)	(28,715)
Operating profit	5	2,716	3,799
EBITDA before exceptional items		7,735	7,405
Profit on ordinary activities before interest and taxation		2,716	3,799
Finance income	8	7	11
Finance costs	8	(975)	(1,000)
Net finance costs		(968)	(989)
Profit before income tax		1,748	2,810
Income tax credit / (expense)	9	346	(307)
Profit for the financial year		2,094	2,503

Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit for the financial year		2,094	2,503
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss			
Actuarial (losses) / gains on retirement benefit obligations	9, 17	(3,945)	991
Movement on deferred tax relating to pension deficit		673	(202)
Movement on deferred tax relating to change in tax rates		(3)	9
Prior year adjustment		-	374
Other comprehensive (expense) / income for the year, net of tax		(3,275)	1,172
Total comprehensive (expense) / income for the year		(1,181)	3,675

The notes on pages 11 to 25 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2016

		As at 31 December	
	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	10	15,454	16,144
Property, plant and equipment	11	9,140	9,120
Investments in subsidiaries	12	2,383	2,208
Retirement benefit asset	17	-	249
		<u>26,977</u>	<u>27,721</u>
Current assets			
Inventories	13	291	295
Trade and other receivables	14	61,965	53,639
Cash and cash equivalents		<u>8,954</u>	<u>5,693</u>
		71,210	59,627
Creditors: amounts falling due within one year	15	<u>(56,637)</u>	<u>(48,852)</u>
Net current assets		14,573	10,775
Total assets less current liabilities		41,550	38,496
Provisions for liabilities	16	(1,217)	(609)
Retirement benefit obligations	17	<u>(4,737)</u>	<u>(1,110)</u>
Net assets		<u>35,596</u>	<u>36,777</u>
Equity			
Ordinary shares	18	-	-
Revaluation reserve		262	262
Capital redemption reserve		28,981	28,981
Retained earnings		<u>6,353</u>	<u>7,534</u>
Total shareholders' funds		<u>35,596</u>	<u>36,777</u>

The notes on pages 11 to 25 are an integral part of these financial statements.

The financial statements on pages 8 to 25 were approved and authorised for issue by the board on 25 April 2017 and signed on its behalf by:



A C Bolter
Director
26 April 2017

Registered number: 02880501

Statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Revaluation reserve ¹ £'000	Capital redemption reserve ² £'000	Retained earnings ³ £'000	Total Shareholders funds £'000
Balance at 1 January 2015	-	262	28,981	3,859	33,102
Profit for the financial year	-	-	-	2,503	2,503
Other comprehensive income for the year:					
Actuarial gains on retirement benefit obligations, net of deferred tax	-	-	-	798	798
Prior year adjustment ⁴	-	-	-	374	374
Total comprehensive income	-	-	-	3,675	3,675
Balance as at 31 December 2015	-	262	28,981	7,534	36,777

For the year ended 31 December 2016

	Share capital £'000	Revaluation reserve ¹ £'000	Capital redemption reserve ² £'000	Retained earnings ³ £'000	Total Shareholders funds £'000
Balance at 1 January 2016	-	262	28,981	7,534	36,777
Profit for the financial year	-	-	-	2,094	2,094
Other comprehensive income for the year:					
Actuarial (losses) on retirement benefit obligations, net of deferred tax	-	-	-	(3,275)	(3,275)
Total comprehensive income	-	-	-	(1,181)	(1,181)
Balance as at 31 December 2016	-	262	28,981	6,353	35,596

The notes on pages 11 to 25 are an integral part of these financial statements.

¹ The revaluation reserve arose as part of a number of property revaluations during 1998 by the previous owners.² The capital redemption reserve arose as part of a restructuring by the Company's ultimate parent ESG Investments Limited.³ Retained earnings represents accumulated comprehensive income for the year and prior periods plus share-based payments adjustments and related tax credits, charges from the parent company for share-based payments, transfers from the revaluation relating to depreciation realised on revaluations less dividends paid.⁴ Relates to the final adjustment regarding the Corporate simplification carried out during 2014.

Notes to the financial statements for the year ended 31 December 2016

1 General Information

Environmental Scientifics Group Limited ("the Company") provides inspection, testing and compliance services to customers operating in the Infrastructure, Built Environment and Energy & Waste sectors in particular.

The company is a private limited company, incorporated and domiciled in the United Kingdom (Registration number 2880501). The address of the registered office is ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent, DE15 0YZ.

2 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of Environmental Scientifics Group Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of the amount, event or action, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10 (d), (statement of cash flows)
 - 16 (statement of compliance with all IFRS)
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position)
 - 111 (cash flow statement information), and
 - 134 - 136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Revenue recognition

Revenue, which is stated net of value added tax, represents net amounts receivable from external customers for the value of the services supplied in the ordinary course of the Company's activities.

Revenue from inspections and tests is recognised when the service is either complete, or is at a stage of completion where it can be measured reliably.

Revenue arising from long term contracts represents the proportion of the contract value applicable to the activity in the period ascertained by reference to the application for payments on each contract. Estimates of total contract costs and revenues are reviewed periodically and the cumulative effects of changes are recognised in the period in which they are identified. All known or anticipated losses are provided in full as soon as they are foreseen. Revenues recognised in excess of amounts billed, less applicable payments on account, are classified as accrued income.

Cost of sales

Cost of sales represents amount paid for direct costs of running the laboratories, appropriate salaries, together with amounts due to external third parties for inspection services and other costs directly related to revenue.

Property plant and equipment

Property, plant and equipment is stated at historical cost less depreciation.

The cost of property, plant and equipment is the purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated on a straight line basis so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Vehicles, plant and equipment	- 3 to 10 years
Short leasehold improvements	- Shorter of lease term or useful life
Freehold and long leasehold buildings	- 30 years

Freehold and long leasehold land is not depreciated. Short leasehold assets are depreciated over the period of the lease.

Property, plant & equipment are tested for impairment when a triggering event occurs by comparing the carrying value of the asset being tested with its recoverable amount. The recoverable amount is the higher of the net selling price and value in use. Value in use is calculated on the basis of estimated future cash flows, using a discount rate appropriate to the Company.

Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

Notes to the financial statements for the year ended 31 December 2016 (continued)**2 Principal accounting policies (continued)****Consolidation**

The Company is a wholly owned subsidiary of Environmental Scientifics Group Holdings Limited. It is included in the consolidated financial statements of Environmental Scientifics Group Holdings Limited which are publically available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Finance and operating leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Costs in respect of operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the lease term. Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership of an asset ("finance leases") are treated as if the asset has been purchased outright. The assets are included in the balance sheet as non-current assets on the lease commencement date at the lower of fair value and present value of minimum lease payments. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Goodwill

Goodwill arising represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually by assessing the recoverable amount of each operating segment to which the goodwill relates. The recoverable amount is higher of fair value less costs to sell, and value in use. When the recoverable amount of the operating segment is less than the carrying amount, an impairment is recognised. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of subsidiaries, associates or jointly controlled entities, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Purchased intangible assets, including but not limited to computer software, brands, technology and customer relationships are capitalised when acquired as part of a business combination or otherwise purchased and amortised on a straight line basis over their estimated useful lives. The estimated useful life of intangible assets is summarised below:

Brands	25 years
Customer relationships	10 years
Knowhow & technology	15 years
Software	3 years

Software costs consist primarily of externally incurred development costs and separately identifiable staff costs.

Intangibles are tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on intangibles are not reversed.

Taxation

The tax expenses for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment in respect of the prior year. The charge is calculated on the basis of the tax laws enacted or substantively enacted at 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.

A deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out method. Net realisable value is the estimated selling price, less applicable selling expenses. Inventories represent goods held for resale, and certain consumables used by the Company. In general consumables are written off to cost of sales in the period in which they are purchased unless there is a clear one to one relationship between the use of the consumable and the revenue generated from the service.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer) they are classified as current assets. If not, they are presented as non-current assets.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Creditors

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers.

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

Employee benefits

a) Defined contribution scheme

The Company operates a defined contribution pension scheme and the pension charge in the profit and loss account represents the amounts payable by the Company to the fund in respect of the year.

b) Defined benefit scheme

The Company operates two defined benefit schemes. The amounts charged to operating profit in respect of these schemes are current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs within administrative expenses. Past service costs are charged to operating profit immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised by equal annual instalments over the period until vesting occurs.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan asset. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on governments bonds are used.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Actuarial gains and losses net of deferred tax are recognised immediately in the statement of comprehensive income.

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Reorganisation provisions comprise lease term penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provision is recognised even if the outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the relevant part of the entity operates (the "functional currency"). The financial statements are presented in 'pounds Sterling' (£) which is also the Company's functional currency. Transactions denominated in currencies other than the functional currency are translated into the functional currency at spot rates prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which are held at the year-end, are taken to the income statement within administrative expenses.

Exceptional items

Exceptional items are not explicitly addressed under FRS101. Accordingly, the Company has defined exceptional items as those items of sufficient financial significance to be disclosed separately in order to assist in understanding the underlying financial performance achieved.

Exceptional items are those which, in the judgement of the directors, need to be disclosed separately by virtue of their size or incidence in order to obtain a proper understanding of the financial information, such as the impairment of goodwill, impairment of assets, restructuring costs and acquisition activities.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3 Critical estimates and judgements in applying the entity's accounting policies

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions i.e. life expectancy, salary increases, asset valuations and discount rates. These assumptions reflect historical experience and current trends. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

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

Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash generating units have been determined based on value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates. See note 10 for the carrying amount of goodwill.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on *technological advancement, future investments, economic utilisation and the physical condition of the assets*. See note 11 for the carrying amount of the property, plant and equipment, and note 2 for the useful economic lives of each class of assets.

Impairment of trade receivables

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 14 for the net carrying amount of receivables and associated impairment provision.

Provisions against accrued income and retentions

The Company makes an estimate of the recoverable value of accrued income and retentions. When assessing accrued income and retentions management considers factors including operational management expertise together with historical experiences. See note 14 for the net carrying amount of accrued income and retentions.

Notes to the financial statements for the year ended 31 December 2016 (continued)**4 Revenue**

Revenue arises from the Company's activities as outlined in the Strategic report. There is one category of revenue. The analysis of revenue by geographical area of destination is shown below:

	2016	2015
	£'000	£'000
United Kingdom	80,790	75,880
Europe	524	1,134
Rest of the World	300	59
	81,614	77,073

5 Operating profit

	2016	2015
	£'000	£'000

Operating profit is stated after charging / (crediting):

Wages and salaries	34,094	32,198
Social security costs	3,236	3,019
Pension costs - defined contribution plans (note 17)	816	768
Pension costs - defined benefit plans (note 17)	423	468
Staff costs	38,569	36,453
Profit on disposal of fixed assets	(21)	(67)
Amortisation of intangible assets	1,179	1,119
Operating lease charges	6,443	6,186
Foreign exchange (gains) / losses on trade receivables	(90)	37
Audit fees payable to the company's auditors	31	31
Amount of inventories recognised as an expense	1,143	1,082

6 Exceptional items

Exceptional items consist of the following items:

	2016	2015
	£'000	£'000
Onerous lease provision	765	-
Refinancing costs	472	-
Redundancies and reorganisation costs	542	597
	1,779	597

During the year the majority of exceptional items related predominately to the reorganisation and rationalisation of the coal sector business units, together with the refinancing of the Group.

Notes to the financial statements for the year ended 31 December 2016 (continued)**7 Directors and employees**

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

	2016 Number	2015 Number
By activity		
Inspection & testing	928	888
Marketing and distribution	52	48
Management and administration	290	280
	1,270	1,216

Total emoluments paid to key management personnel (statutory and commercial directors) were £1,588,000 (2015: £1,690,000) with £101,000 (2015: £82,000) contributions into defined contribution schemes.

Total emoluments paid to directors were £1,304,000 (2015: £1,331,000) with £90,000 (2015: £62,000) contributions into defined contribution schemes. The emoluments of the highest paid director were £424,000 (2015: £403,000) with £45,000 (2015: £14,000) being paid to defined contribution pension schemes. Pension contributions into personal pension schemes were payable in respect of two (2015: two) executive directors.

The number of shares held by key management at 31 December 2016 was nil (2015: nil). Key management personnel are those persons having authority for planning, directing and controlling the activities of the company, including all directors of ESG Investments Limited.

8 Net finance costs

Finance income	2016 £'000	2015 £'000
Bank interest income	7	11
Total finance income	7	11
Finance expense	2016 £'000	2015 £'000
Interest expense on amounts due to other group companies	(937)	(937)
Net cost on post-employment benefits (note 17)	(38)	(63)
Total finance expense	(975)	(1,000)
Net finance cost	2016 £'000	2015 £'000
Interest income	7	11
Interest expense	(975)	(1,000)
Net finance expense	(968)	(989)

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Income tax

	2016 £'000	2015 £'000
Current income tax:		
UK corporation current tax on profit for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	(450)	146
Adjustments in respect of prior year	(39)	16
Impact of changes in tax rate	143	145
Total deferred tax	(346)	307
Tax on profit on ordinary activities	(346)	307
Other comprehensive income items:		
Origination and reversal of timing differences	(673)	202
Impact of change in tax rate	3	(9)
	(670)	193

A reconciliation of the income tax credit applicable to the accounting loss before tax at the statutory income tax rate to total taxation for the Company is as follows:

The tax charge for the year is lower (2015: lower) than the standard UK corporation tax rate of 20.00% (2015: 20.25%).

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	1,748	2,810
Profit on ordinary activities multiplied by the standard UK corporation tax rate of 20.00% (2015: 20.25%)	350	569
Effects of:		
Adjustments in respect of prior year	(39)	16
Expenses not deductible for tax purposes	125	44
Income not taxable for tax purposes	-	(252)
Tax rate changes	143	145
Non qualifying assets	30	31
Effects of group relief/ other reliefs	(955)	(246)
Tax (credit) / expense	(346)	307

Factors affecting current and future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Deferred taxation

At 31 December 2016, the company had deferred tax assets as follows:

Deferred tax assets

	2016 £'000	2015 £'000
At 1 January	1,278	1,777
Charge to the profit and loss account	307	(290)
Adjustment in respect of prior years	39	(16)
Deferred tax charge in Other Comprehensive Income	671	(193)
Total deferred tax asset recognised (note 14)	2,295	1,278
	Amount recognised	Amount recognised
	2016 £'000	2015 £'000
Tax effect of timing differences because of:		
Fixed Assets	1,224	836
Temporary differences trading	1,071	442
Total deferred tax asset	2,295	1,278

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Intangible assets

	Goodwill	Brands	Customer Relationships	Knowhow and technology	Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2015	22,711	301	5,408	3,132	1,358	32,910
Additions	-	-	-	49	790	839
At 31 December 2015	22,711	301	5,408	3,181	2,148	33,749
Additions	-	-	-	-	489	489
As 31 December 2016	22,711	301	5,408	3,181	2,637	34,238
Accumulated amortisation						
At 1 January 2015	11,767	73	2,617	1,104	925	16,486
Amortisation for the year (note 5)	-	12	541	209	357	1,119
At 31 December 2015	11,767	85	3,158	1,313	1,282	17,605
Amortisation for the year (note 5)	-	12	541	209	417	1,179
At 31 December 2016	11,767	97	3,699	1,522	1,699	18,784
Net book value						
As at 31 December 2015	10,944	216	2,250	1,868	866	16,144
As at 31 December 2016	10,944	204	1,709	1,659	938	15,454

The total goodwill and other intangibles of £15.4m (2015: £16.1m) is allocated to the Company's single cash generating unit (CGU) this being for environmental services.

Intangible assets amortisation is recorded in administrative expenses in the income statement.

At the year end, an impairment test on goodwill was carried out in accordance with FRS101. The impairment analysis is based on future projected after tax cash flows to 2021, followed by a terminal earnings estimate amount, based on a growth rate to perpetuity of 2.0% per annum. These forecasts reflect management's prudent consideration of future performance in terms of sales, margins and market conditions against historic trading experience and the recoverable amounts of the assets are supported by value in use based on a discount rate of 9.4%, the discount rate applied to future post tax cash flows.

11 Property, plant and equipment

	Freehold and long leasehold land and buildings	Short leasehold improvements	Vehicles, Plant and Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2015	2,883	956	20,777	24,616
Additions	-	-	2,065	2,065
Disposals	(191)	-	(743)	(934)
At 31 December 2015	2,692	956	22,099	25,747
Additions	-	-	2,081	2,081
Disposals	-	-	(571)	(571)
At 31 December 2016	2,692	956	23,609	27,257
Accumulated depreciation				
At 1 January 2015	831	619	14,110	15,560
Charge for the year	55	34	1,831	1,920
Disposals	(137)	-	(716)	(853)
At 31 December 2015	749	653	15,225	16,627
Charge for the year	40	34	1,987	2,061
Disposals	-	-	(571)	(571)
At 31 December 2016	789	687	16,641	18,117
Net book value at 31 December 2016	1,903	269	6,968	9,140
Net book value at 31 December 2015	1,943	303	6,874	9,120

Included in vehicles, plant and equipment are assets held under finance leases with a net book value of £nil (2015: £nil). The depreciation charge relating to the continuing business for the year ended 31 December 2016 in respect of assets held under finance leases was £nil (2015: £nil).

Notes to the financial statements for the year ended 31 December 2016 (continued)

12 Investments

	Subsidiary undertakings £'000
Cost and net book value	
At 1 January 2016	2,208
Additions in the year	
Gas Lab	175
At 31 December 2016	2,383

The Company indirectly holds 100% of the share capital of ESG Asbestos Limited.

The Company holds 100% of the issued share capital of Geotech Specialists Limited, a company registered in Ireland.

Investments in group undertakings are stated at cost. The directors believe that the carrying value of the investments is supported by their underlying net assets.

The following is a list of subsidiaries at 31 December 2016:

	Registered Office	Class of shares	% interest	Country of incorporation or registration	Type of business
Precision Monitoring and Control Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Dormant company
Geotech Specialists Limited	Carrewswood, Castlemartyr, Co Cork, Ireland	Ordinary	100	Ireland	Property holding company
Soil Mechanics Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Dormant company
Henley Water Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Dormant company
Waterwise Technology Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Dormant company
Scientifics Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Holding company
ESG Asbestos Limited	ESG House, Bretby Business Park, Ashby Road, Burton Upon Trent	Ordinary	100	England & Wales	Asbestos testing and consultancy

13 Inventories

	2016 £'000	2015 £'000
Goods held for resale and certain consumables	291	295

The difference between the purchase price and replacement cost is not material.

Inventories are stated after provisions of £nil (2015: £nil).

Notes to the financial statements for the year ended 31 December 2016 (continued)

14 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	16,772	16,552
Amounts owed by group undertakings	37,582	31,118
Other receivable	41	135
Prepayments	2,125	1,908
Accrued income	3,150	2,648
Deferred tax asset (note 9)	2,295	1,278
	61,965	53,639

The fair value of the Company's trade and other receivables is not materially different to the amounts stated above due to their short term duration.

Amounts due from group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

As at 31 December 2016, provisions of £360,000 (2015: £500,000) were made against certain trade receivables totalling £17,132,000 (2015: £16,900,000). The accounting policies include further detail on the Company's provisioning methods.

The Company makes an estimate of the recoverable value of accrued income and retentions £211,000 (2015: £205,000). When assessing accrued income and retentions management considers factors including operational management expertise together with historical experiences.

15 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	6,453	4,650
Amounts owed to group undertakings	40,608	34,758
Other taxation and social security	3,779	3,822
Accruals and deferred income	5,795	5,620
Corporation tax	2	2
	56,637	48,852

Amounts owed to group undertakings at the year end are unsecured and interest free with the exception of £9,370,000 (2015: £9,370,000) which is interest bearing at a rate of 10%. All amounts are repayable on demand.

16 Provisions for liabilities

	£'000
At 1 January 2016	609
Additions	765
Released during the year	(157)
At 31 December 2016	1,217

Provisions principally relate to dilapidations in respect of leasehold properties. The addition in the year relates to the onerous lease provision for the business largest Coal testing facility.

Notes to the financial statements for the year ended 31 December 2016 (continued)

17 Post-employment benefits

	2016 £'000	2015 £'000
Non-current liabilities		
Defined benefit pension schemes net liabilities	(4,737)	(861)

Reflected in statement of financial position as follows:

Retirement benefit obligations: non-current assets	-	249
Retirement benefit obligations: non current liabilities	(4,737)	(1,110)

Expenses of £369,000 (2015: £306,000) and £360,000 (2015: £243,000) have been included in cost of sales and administrative expenses respectively in respect of employee benefits excluding pensions.

Pensions

The Company participates in two industry defined benefit pension schemes and several defined contribution pension schemes. The assets of the defined benefit schemes are managed on behalf of the trustees by independent fund managers.

Expenses recognised in the income statement for the year ended 31 December 2016:

	Industry Wide Coal Staff Superannuation Scheme 2016	Railway Pension Scheme 2016	Defined contribution pension schemes 2016	Year ended 31 December 2016
	£'000	£'000	£'000	£'000
Cost of sales	62	46	380	488
Administrative costs	132	183	436	751
Employer's current service cost	194	229	816	1,239
Net interest on the defined benefit obligation	43	(5)	-	38
Total pension expenses	237	224	816	1,277

Expenses recognised in the income statement for the year ended 31 December 2015:

	Industry Wide Coal Staff Superannuation Scheme 2015	Railway Pension Scheme 2015	Defined contribution pension schemes 2015	Year ended 31 December 2015
	£'000	£'000	£'000	£'000
Cost of sales	59	48	395	502
Administrative costs	170	191	373	734
Employer's current service cost	229	239	768	1,236
Net interest on the defined benefit obligation	46	17	-	63
Total pension expenses	275	256	768	1,299

Movements in the defined benefit obligation during the year are as follows:

	Industry Wide Coal Staff Superannuation Scheme 2016	Railway Pension Scheme 2016	Industry Wide Coal Staff Superannuation Scheme 2015	Railway Pension Scheme 2015
	£'000	£'000	£'000	£'000
At 1 January	7,943	25,237	7,931	25,922
Employer's interest cost	305	985	293	957
Employer's current service cost	101	118	145	139
Employee's current contributions cost	17	65	25	76
Benefits paid	(226)	(1,109)	(218)	(999)
Amounts recognised in the statement of comprehensive income				
- Actuarial (gain) on experience items	(225)	(205)	(37)	(454)
- Actuarial loss / (gain) on financial assumptions	2,481	7,564	(135)	(210)
- Actuarial loss / (gain) on demographic assumptions	63	-	(61)	(194)
Present value of obligation at 31 December	10,459	32,655	7,943	25,237

Notes to the financial statements for the year ended 31 December 2016 (continued)

17 Post-employment benefits (continued)

Movements in the fair value of plan assets during the year are as follows:

	Industry Wide Coal Staff Superannuation Scheme 2016 £'000	Railway Pension Scheme 2016 £'000	Industry Wide Coal Staff Superannuation Scheme 2015 £'000	Railway Pension Scheme 2015 £'000
At 1 January	6,833	25,867	6,530	25,167
Interest income on scheme assets	262	994	247	929
Contributions by employer	434	96	422	111
Contributions by scheme participants	17	65	25	76
Benefits paid	(226)	(1,109)	(218)	(999)
Administration expenses	(93)	(197)	(84)	(183)
Amounts recognised in other comprehensive income				
- Actuarial gain / (loss) on plan assets	850	3,015	(89)	766
Fair value of scheme assets at 31 December	8,077	28,731	6,833	25,867

It is anticipated that the Company will make the following contributions to the pension schemes in 2017:

	£'000
Pension scheme contributions	439

The 31 December 2015 valuation of the Industry Wide Coal Staff Superannuation Scheme revealed a deficit. It has been agreed with the Trustees that the Company will pay £309,000 each year until 31 December 2023 to make good this deficit. This amount includes the allowance for current contributions with the remainder being allocated towards the shortfall in funding.

The amounts recognised in the statement of financial position at 31 December 2016 are determined as follows:

	Industry Wide Coal Staff Superannuation Scheme £'000	Railway Pension Scheme £'000	Total £'000
At 31 December 2016			
Present value of funded obligations	(10,459)	(32,655)	(43,114)
Fair value of plan assets	8,077	28,731	36,808
Deficit in scheme	(2,382)	(3,924)	(6,306)
Adjustment for members share of deficit	-	1,569	1,569
Net pension liability	(2,382)	(2,355)	(4,737)
Actuarial gain on experience items	225	205	430
Actuarial loss on financial assumptions	(2,481)	(7,564)	(10,045)
Actuarial loss on demographic assumptions	(63)	-	(63)
Actuarial gain on plan assets	850	3,015	3,865
Net actuarial loss	(1,469)	(4,344)	(5,813)
Company's share of net actuarial losses on scheme assets	(1,469)	(2,607)	(4,076)
Effect of limit on deficit	-	131	131
Actuarial losses on scheme liabilities	(1,469)	(2,476)	(3,945)
Deferred tax on pension scheme	250	420	670
Net actuarial losses on scheme liabilities	(1,219)	(2,056)	(3,275)

The amounts recognised in the statement of financial position at 31 December 2015 are determined as follows:

	Industry Wide Coal Staff Superannuation Scheme £'000	Railway Pension Scheme £'000	Total £'000
At 31 December 2015			
Present value of funded obligations	(7,943)	(25,237)	(33,180)
Fair value of plan assets	6,833	25,867	32,700
Deficit in scheme	(1,110)	630	(480)
Cap on pension asset	-	(381)	(381)
Net pension liability	(1,110)	249	(861)
Actuarial gain on experience items	37	454	491
Actuarial gain on financial assumptions	135	210	345
Actuarial gain on demographic assumptions	61	194	255
Actuarial (loss) / gain on plan assets	(89)	766	677
Net actuarial gain	144	1,624	1,768
Company's share of net actuarial gains on scheme assets	144	974	1,118
Effect of limit on recoverable surplus	-	(127)	(127)
Actuarial gains on scheme liabilities	144	847	991
Deferred tax on pension scheme	(28)	(165)	(193)
Net actuarial gains on scheme liabilities	116	682	798

Notes to the financial statements for the year ended 31 December 2016 (continued)

17 Post-employment benefits (continued)

Actuarial valuations and assumptions

Industry Wide Coal Staff Superannuation Scheme (Scheme 1)

A full actuarial valuation as at 31 December 2015 has been carried out by a qualified independent actuary. The results of this valuation were used and rolled forward to the accounting date. The service cost has been calculated by using the Projected Unit method.

Scientifics Shared Cost Section of the Railways Pension Scheme (Scheme 2)

The last full actuarial valuation finalised prior to the 31 December 2016 year end was at 31 December 2013. The results of this valuation were used and rolled forward to the accounting date.

The assumptions used by the actuaries for both schemes 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. The principal assumptions are included in the table below:

	Industry Wide Coal Staff Superannuation Scheme	Railway Pension Scheme	Industry Wide Coal Staff Superannuation Scheme	Railway Pension Scheme
	2016	2016	2015	2015
Discount rates	2.65%	2.65%	3.90%	3.90%
Expected rates of salary increases	1.60%	1.60%	1.50%	1.50%
Pension increases	3.05%	2.10%	2.95%	2.00%
Inflation (RPI)	3.20%	3.20%	3.10%	3.10%
Inflation (CPI)	2.10%	2.10%	2.00%	2.00%

An assumption has also been made for members of the Railway Pension Scheme to commute on average 5% of their pension for cash on retirement, in line with the 2013 valuation results. An allowance has been made in the valuation of the Industry Wide Coal Staff Superannuation Scheme for members to commute 15% of their pension for cash at retirement.

The starting point for the mortality assumptions for both schemes are those used for the most recent funding valuation. Based on this analysis, the "SAPS" standard mortality tables have been used for both schemes, adjusted to reflect the actual membership experience of each scheme. For the Industry Wide Coal Staff Superannuation Scheme, the second series of the SAPS tables have been used, with the underlying mortality rates rated up to 118%, while the Scientifics Section of the Railway Pension Scheme referenced the first series of the SAPS "normal" and "heavy" tables, depending on the level of members' earnings or pension and their respective postcode group and rated between 98% and 116% for members assumed to be in ordinary health.

Future improvements are assumed to be in line with the CMI_2015 model, allowing for a long-term future trend of 1.25% per annum.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	Industry Wide Coal Staff Superannuation Scheme	Railway Pension Scheme	Industry Wide Coal Staff Superannuation Scheme	Railway Pension Scheme
	2016	2016	2015	2015
Life expectancy at 65 for a current male pensioner (years)	21.1	22.2	20.7	22.1
Life expectancy at 65 for a male non-pensioner aged 45 (years)	22.7	21.8	22.3	21.7

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

	Industry Wide Coal Staff Superannuation Scheme Fair value	Industry Wide Coal Staff Superannuation Scheme Fair value	Industry Wide Coal Staff Superannuation Scheme Fair value	Industry Wide Coal Staff Superannuation Scheme Fair value
	£'000	%	£'000	%
2016				
Equities	5,167	64%	17,968	63%
Bonds	1,555	19%	9,135	32%
Property	1,315	17%	-	0%
Cash	40	0%	55	0%
Other	-	0%	1,573	5%
	8,077	100%	28,731	100%
2015				
Equities	4,232	62%	15,761	61%
Bonds	1,288	19%	8,483	33%
Property	1,287	19%	-	0%
Cash	26	0%	47	0%
Other	-	0%	1,576	6%
	6,833	100%	25,867	100%

Notes to the financial statements for the year ended 31 December 2016 (continued)**17 Post-employment benefits (continued)****Industry Wide Coal Staff Superannuation Scheme**

The Industry Wide Coal Staff Superannuation Scheme (IWCSSS) is a funded defined benefit arrangement and is an industry-wide scheme for eligible employees. There are different sub-funds within the scheme for different employers. The assets and liabilities of each sub-fund are identified separately from those of the other sub-funds and the Company has its own sub-fund. The assets of the scheme are held separately from the Company. The Company's sub-fund of the scheme has been closed to new members since 1994.

Formal actuarial valuations of the IWCSSS are normally carried out triennially by qualified independent actuaries, and the last full actuarial valuation of the Company's section of the IWCSSS was carried out by the scheme actuary at 31 December 2015.

The sensitivity of the defined benefit obligation to changes in the actuarial assumptions is:

	Change in assumption	Change in defined benefit obligation £'000
Discount rate	-0.1%	200
Inflation	+0.1%	200
Expected rates of salary increase	In line with CPI	50
Mortality	+ 1 year age rating applied to mortality	(350)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be corrected. The method of calculating these sensitivities is consistent with prior year.

Railways Pension Scheme

The Railway Pension Scheme (RPS) was established by statutory instrument, commenced on 1 October 1994 and is a funded defined benefit arrangement. The RPS is an industry-wide scheme for all eligible employees within the railway industry. There are different sections within it for different employers. The assets and liabilities of each section are identified separately from those of the other sections and the Company has its own section. This scheme, the assets of which are held separately from the Company, is contributory and provides pensions related to pay at retirement. The Company's section of the scheme has been closed to new members since 2003.

Formal actuarial valuations of the RPS are normally carried out triennially by qualified independent actuaries, and the last full actuarial valuation of the Company's section of the RPS was carried out by the scheme actuary at 31 December 2013.

The total contribution rate payable under the RPS is normally split in the proportion 60:40 between the Company and the members. The Company reflects its share of the contribution in the financial statements. If a surplus or deficit arises, the provisions in the RPS rules stipulate that the Company and members benefit from or pay for this respectively in the proportion 60:40.

The sensitivity of the defined benefit obligation to changes in the actuarial assumptions is:

	Change in assumption	Change in defined benefit obligation £'000
Discount rate	-0.1%	650
Inflation	+0.1%	650
Expected rates of salary increase	In line with CPI	350
Mortality	+ 1 year age rating applied to mortality	(900)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The method of calculating these sensitivities is consistent with prior year.

Through its defined benefit pension plans the company is exposed to a number of risks that are inherent in such plans and arrangements. There are, however, no unusual, company specific risks, and no significant concentrations of risk. The risks can be summarised as follows:

Asset value volatility, with the associated impact on the assets held in connection with the funding of pension obligations and the related cash flows; changes in bond yields, with any reduction resulting in an increase in present value of pension obligations, mitigated by an increase in the value of plan assets; inflation risk - the risk that inflation is higher than assumed, with subsequent increases to pensions that need to be paid; and life expectancy, as pensions are provided for the life of the beneficiaries and their dependants.

Notes to the financial statements for the year ended 31 December 2016 (continued)**18 Share capital**

	2016	2015
	£'000	£'000
Allotted and fully paid		
288 (2015: 288) Ordinary Shares of £1 each	-	-

19 Capital and other commitments

At 31 December, the company had the following capital commitments

	2016	2015
	£'000	£'000
Contracts for future capital expenditure not provided in the financial statements	146	76

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	At 31 December 2016		At 31 December 2015	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Not later than one year	2,152	1,603	1,838	852
Later than one year and not later than five years	6,962	1,337	6,133	709
Later than five years	8,253	-	8,904	-
	17,367	2,940	16,875	1,561

20 Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) from the provisions of IAS 24, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Environmental Scientifics Group Holdings Limited, whose financial statements are publicly available.

Transactions with related parties outside the group amounted to purchase of services from 3i Investments Plc £84,000 (2015: £70,000) and MCR Holdings Limited £45,740 (2015: £37,749). Amounts due to 3i Investments Plc at 31 December 2016 amounted to £21,000 (2015: £17,500) and MCR Holdings Limited £3,835 (2015: £6,287).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

See note 7 for disclosure of the directors remuneration.

21 Ultimate parent company and ultimate controlling party

The Company is a wholly-owned subsidiary of Inspicio Environmental Services Group Limited, which is registered in the United Kingdom, and is the immediate parent undertaking.

At the year end date, in the opinion of the directors the ultimate parent undertaking was ESG Investments Limited, a company incorporated in the Cayman Islands.

The ordinary share capital of ESG Investments Limited was owned by several parties including a number of funds each under the management of 3i investments PLC. None of these funds individually had a controlling interest in the company and the directors are therefore of the opinion that there was no ultimate controlling party.

At the signing date, in the opinion of the directors the ultimate parent undertaking of the Company is Soco 1, a company registered in France (note 22).

The smallest and largest group of undertakings of which the Company is a member that produces publically available consolidated financial statements is Environmental Scientifics Group Holdings Limited, a Company incorporated in the United Kingdom. Its consolidated financial statements may be obtained from the Company's registered office at ESG House, Bretby Business Park, Ashby Road, Bretby, DE15 0YZ.

22 Subsequent events

On 23rd March 2017, Socotec UK Holdings, a company registered in the United Kingdom, acquired the entire share capital of ESG Investments Limited, previously the ultimate parent undertaking of the Company.