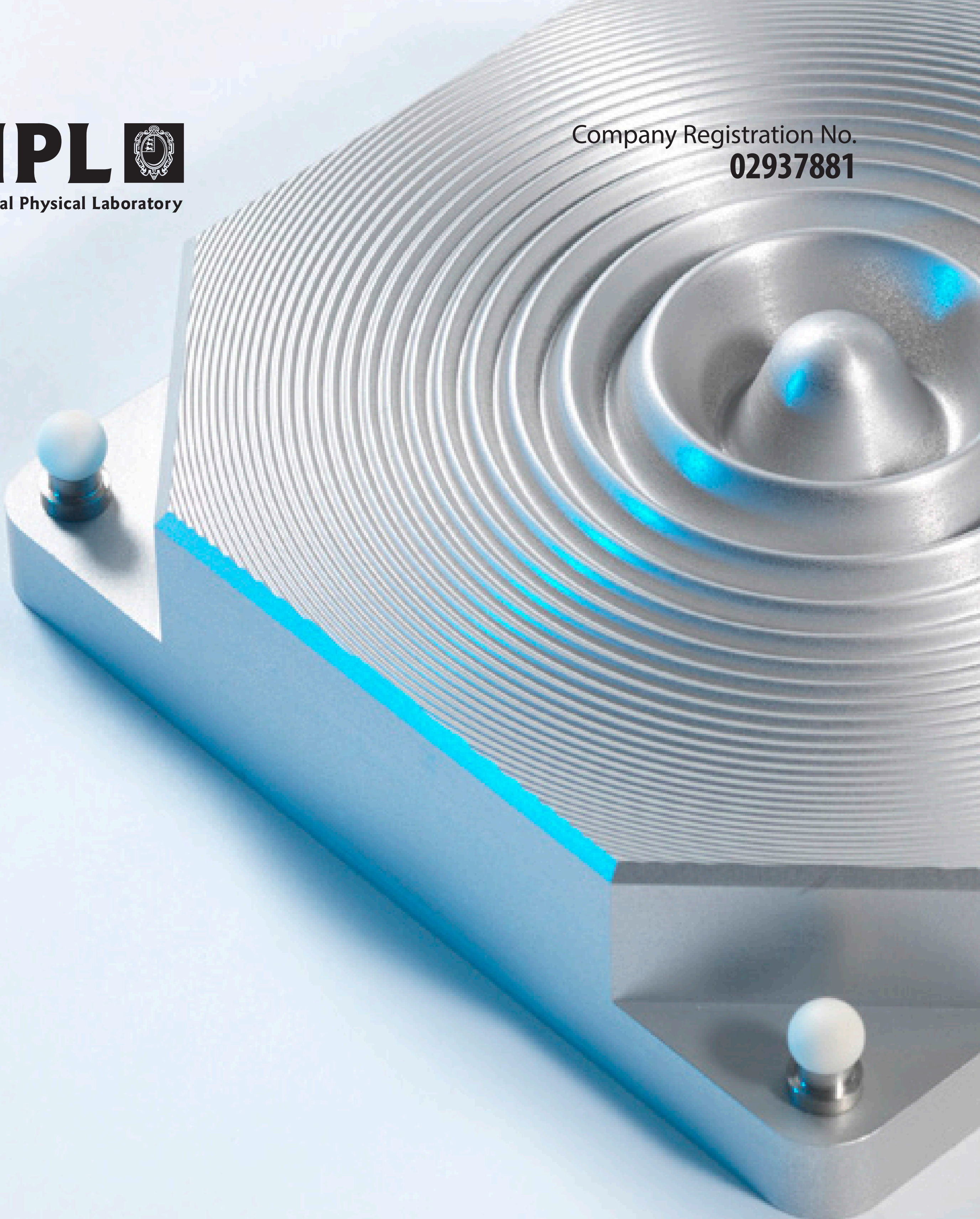
National Physical Laboratory

Company Registration No.
02937881



NPL Management Ltd
Report and Financial Statements

31 December 2014

NPL's Mission

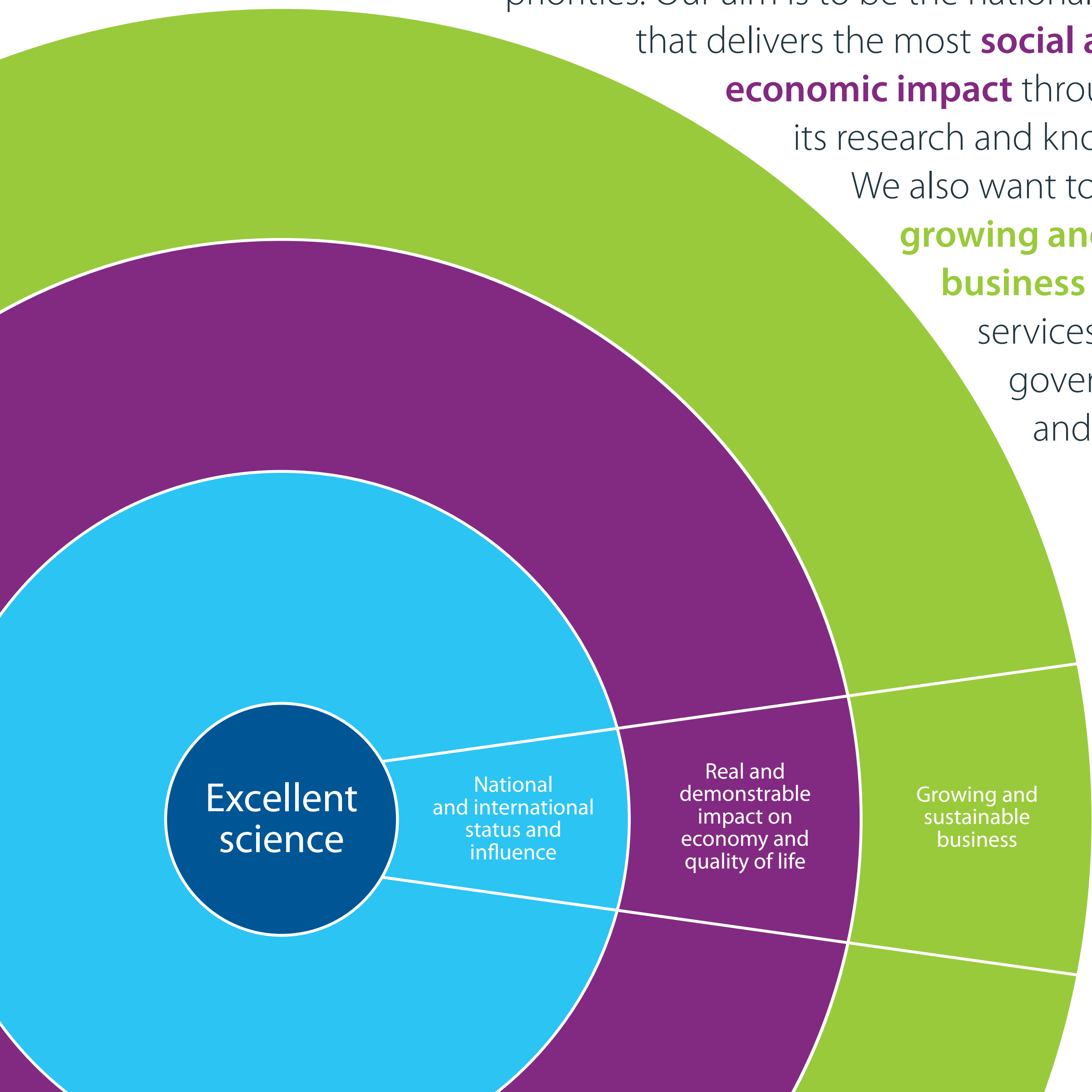
To provide the measurement capability that underpins the UK's prosperity and quality of life.

NPL's Vision

To be a National Science and Technology Laboratory for Government and Business undertaking work in the national interest to deliver social and economic impact through world-class measurement science, innovative applied research and knowledge services.

Our strategy is simple

At our heart we deliver **excellent and responsive science**. This enables us to remain a **world-leading National Measurement Institute with international influence** and to contribute to national and international priorities. Our aim is to be the national laboratory that delivers the most **social and economic impact** through applying its research and knowledge. We also want to be a **growing and sustainable business** through the services we offer to government and industry.



Company Registration No. 02937881 (England and Wales)

NPL MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

NPL MANAGEMENT LIMITED

FOREWORD

We are pleased to introduce the annual report and the audited financial statements of NPL Management Ltd ("NPL") for the year ended 31 December 2014. This was a momentous year for NPL, the last in which NPL was operated on behalf of government as a wholly-owned subsidiary of Serco. Shares in NPL Management Limited transferred from Serco to the Department for Business, Innovation and Skills (BIS) on 1 January 2015. Amanda Brooks (Director Innovation, BIS) became a Non-Executive Director of NPL Management Limited and Interim Chair replacing Sir Peter Williams; Dr David Grant will become Chair with effect from 1 May 2015. We would like to acknowledge the invaluable contribution that Sir Peter made to NPL over the past 12 years and the support given by Serco since the start of the first contract in 1995.

Although a year of transition and a continuing difficult economic climate, NPL had another very successful year. We would highlight the following financial achievements:

- Delivery of challenging financial targets including total revenue of £79.9M (2013: £77.8M) and EBIT of £6.7M (2013: £4.2M).
- Continued growth in competitively-won work to £32.4M (2013: £30.1M). This represents sustained growth of >10% pa since 2004 with this work now accounting for >40% of the revenue of the lab.
- Record commercial orders of £52.2M (2013: £35.2M) with highlights including a £16M contract to manage the €600M European Metrology Programme for Innovation and Research (EMPIR) on behalf of the EU and a £7M contract from Dstl to lead developments in quantum technologies.

However, NPL is much more than its financial numbers. Our strategy comprises four key elements: excellent science, international status and influence, demonstrating social and economic impact, and growing a sustainable business – all designed to deliver science that has a real impact for the UK. Other highlights of 2014 include:

- **Excellent Science** – We produced a record 280 peer-reviewed publications, many in the most prestigious journals. Our Centre for Carbon Measurement has gone from strength to strength and we have also established three new Centres: the National Centre of Excellence for Mass Spectrometry Imaging (with the University of Nottingham and the pharmaceutical industry (notably GSK)); the Quantum Metrology Institute with excellent partnerships with Dstl, Innovate UK and the Research Councils; and GloSS in partnership with Surrey University to exploit opportunities in space satellites and sensing.
- **International Status and Influence** – We have grown our international links and, in addition to our work for the EU, have delivered major projects to time, cost and technical specification for our sister measurement institutes in China, India and Thailand.
- **Demonstrating Impact** – We supported the government in producing econometric analyses that demonstrated the value of science and innovation to the UK.
- **Growing a Sustainable Business** – As well as achieving record orders, we recruited 110 people and operated safely with over 2.5 million hours recorded without a loss-time accident.

2015 will be an exciting year for NPL. We now have responsibility on behalf of government to manage the UK's National Measurement Strategy and our Teddington site. The Universities of Strathclyde and Surrey have signed a partnership agreement with NPL and BIS; we are enthused by the prospects for closer working, establishing an innovative Post Graduate Institute to train a new generation of 'industry-ready' measurement scientists, building our regional centres and developing joint research activities. Although this is an exciting period of change, NPL's commitment is unchanged to sustaining NPL as one of the top three National Measurement Institutes in the world, to deliver solutions for all our customers, and to work in partnership with government, academia and industry to deliver the greatest benefit for the UK and the world.

We would encourage you to read the Report and Financial Statements in conjunction with our Annual Review 2014 which brings to life NPL's work over the last year with illustrations of its economic and social impact.

Amanda Brooks
Chair

Brian Bowsher
Managing Director

NPL MANAGEMENT LIMITED

COMPANY INFORMATION

Directors	Ms N Anson Dr B R Bowsher Prof R A Brook (Non-Executive) Dr M R Sené Dr P J A Howarth (Non-Executive) Ms A M Brooks (Non-Executive)
Secretary	Ms N Anson
Company number	02937881
Registered office	National Physical Laboratory Hampton Road Teddington Middlesex TW11 0LW
Banker	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP
Auditor	Deloitte LLP Chartered Accountants and Statutory Auditor London

NPL MANAGEMENT LIMITED

CONTENTS

Principal activities and future prospects
The principal activity of the Company is to provide scientific research and development, programme management and business support services, as a wholly-owned subsidiary of Serco Holdings Limited in 2014 followed by the Department for Business, Innovation and Skills (BIS) from 1 January 2015.

In 2011 the Company set up a subsidiary, AgPlus Diagnostics Limited (ADL), to take an innovative diagnostic technique to market. It transferred its 86% share of ADL to Serco on 31 December 2014 via a dividend in specie.

The directors are not aware, at the date of this report, of any other major changes in the Company's activities in the next year; notwithstanding the change of ownership in 2015 as set out in the Foreword, other than the issue set out below.

From the expiry of the contract (the Contract) on 1 January 2015 between BIS and Serco Holdings Limited, the Company will account for the pension deficit in full in accordance with the requirements of FRS 17, Accounting for Retirement Benefits, rather than franchise accounting. The directors are of the opinion that, in drawing up and approving annual accounts of the Company for 2015, which include any period after expiry of the Contract, the franchise accounting basis would not be applicable and that the accounts will be required to include the full accounting deficit, most recently assessed at approximately £23M (actuarial deficit £47M). The directors are aware of the provision in the National Measurement Office (NMO) accounts relating to the DB Pension Scheme and have considered the statement that NMO recognises its responsibility to make payments to reduce the deficit. The directors are currently advised that there is no clear and unconditional guarantee by BIS and that no pension asset can be included in Company accounts which include any period after expiry of the Contract. The forecast balance sheet at 31 December 2015 would show (assuming the current state of other liabilities and assets) a deficit on net assets of approximately £11M.

The Directors have been informed that the rent charge for the existing premises will increase significantly with effect from 1 April 2015; however the government should support an equivalent increase in its funding for the National Measurement System (NMS) programme.

The directors have concluded that NPL is a going concern (Note 1); taking into consideration the fact that NPL will have a deficit on net assets in the 12 months following approval of these financial statements. The forecast deficit on net assets arises in 2015, following recognition of the full pension accounting deficit of £23M in the balance sheet, reflecting the ownership of the company covenant for the long term. The latest approved Corporate Plan forecasts a reduction in negative net assets from £11M in 2015 to £2M in 2017 and positive for the remainder of the five year period, as a result of planned expansion of competitively-won, third-party revenue.

Review of the year and future outlook
The Directors consider the results for the year to be satisfactory, particularly as the economic environment remained difficult in 2014 and made funding from both government and industry challenging. The directors remain confident that the Company will sustain its underlying level of performance by continuing to operate efficiently and growing revenue from sources other than its main contract with BIS.

As shown in the Company's profit and loss account on page 7, the Company's turnover has increased by 2.7 % (2013: increase of 6.6%), and the profit before tax increased by 62.4% (2013: profit increase of 25.6%). The profit before tax as a percentage of turnover for the year ended 31 December 2014 was 8.0% (2013: 5.1%). The increase in profitability compared with the previous year is a reflection of continuing commitment to science capability and future sustainable revenue growth as can be seen from our involvement in EU funded programmes of work. Turnover per number of employees for the year ended 31 December 2014 was £114,953 (2013: £117,886).

The Company's net asset position on page 9, was £12,026,000 as at 31 December 2014 (2013: £15,157,000) reflecting the transfer of the ADL investment.

An important measure of the Company's health is utilisation of our staff on turnover generating services. During the year this was 81.8% (2013: 81.6%) of scientists' bookable time.

Maintaining a high level of customer satisfaction is important for the Company's success, especially within our Measurement Services business. The aggregate measure for customer satisfaction for the year to 31 December 2014 amounted to 88.4% compared with 87.6% for the year ended 31 December 2013.

Financial risk management
The Company operates a risk management system, which is regularly reviewed by the directors. The directors seek to ensure that financial risk is managed with the purpose of minimising any potential adverse effect on the Company's performance.

The Company receives the bulk of its revenue from UK Government departments and so is not exposed to significant credit risk. The major contract (the Contract) that operated from 1995 until expiry on 31 December 2014 had a fixed total commitment. The new NPL Contract will not include a fixed commitment; however the Company transferred to BIS on 1 January 2015, who assumes full ownership for the long term. Significant NMS contracts are already committed as at 1 January 2015 and no material change in revenue streams is anticipated.

Environment
The Company has operated in accordance with the environmental policies laid down by its Parent Company, Serco Group plc during 2014 and will work with BIS to transition to the relevant policies going forward. The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to reduce the Company's impact on the environment include completing an annual environmental impact assessment, a comprehensive recycling programme and reducing energy consumption. In 2014, 63.4 tonnes of waste were produced at NPL, of which 94.0% was recycled (in 2013: 243.2 tonnes were produced, of which 94.9% was recycled) and the remainder went to landfill.

Employee involvement
Managers are tasked with developing employees' awareness of factors affecting the business and matters concerning them as employees and noting employees' views so that they can be taken into account when making decisions that may affect them or the business. Employees are kept up-to-date with factors affecting the business via team meetings, monthly updates and quarterly Company-wide communications and are actively encouraged to feedback their views and ideas.

An annual engagement survey was conducted in September 2014 to help measure employee levels of engagement with NPL and its goals and direction. The survey provides a voice for employees to challenge and reinforce views. The 2014 results indicated an 11% improvement in overall employee engagement with particular success around health and safety, diversity and customer orientation. Areas for continued attention and improvement are senior leadership visibility, career development and recognition. Engagement is a key priority for 2015, highlighted within NPL's HR Strategy.

Employment of disabled persons, diversity and corporate social responsibility
NPL embraces diversity, employing individuals based on their aptitude. The Company is committed to employing disabled people and has been approved to use the Two Ticks Disability Symbol. NPL is also a member of the 5% Club, a campaign focused on creating momentum behind the recruitment of apprentices and graduates into the UK workforce. By joining the club, the Company has committed to the aim of ensuring that 5% of its UK workforce are apprentices, graduates or sponsored students on structured programmes within the next five years. The organisation engages people with over 40 different nationalities in either full time employment, studentships or present as visiting researchers from all over the world.

On behalf of the board

....
Ms N Anson
Director

27th March 2015

NPL MANAGEMENT LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2014. The accounts have been prepared on a going concern basis for the reasons set out in Note 1 to the accounts.

Directors
The directors who held office during the year were as follows:

Ms N Anson	
Dr B R Bowsher	
Prof R A Brook (Non-Executive)	
Mr I W Downie (Non-Executive)	(Resigned 1 January 2015)
Dr M R Sené	
Dr P J A Howarth (Non-Executive)	(Appointed 1 January 2015)
Ms A M Brooks (Non-Executive)	(Appointed 1 January 2015)
Sir P M Williams (Non-Executive)	(Resigned 1 January 2015)

Auditor
Deloitte LLP has expressed its willingness to continue in office as auditor.

Results and dividends
The profit of the Company after taxation is set out on page 7. Dividends totalling £3,618,683 were paid in specie during the year in respect of the transfer of AgPlus Diagnostics Limited (2013: £nil).

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

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

Statement of disclosure to auditor
So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all 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.

On behalf of the board

....
Ms N Anson
Director

27th March 2015

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NPL MANAGEMENT LIMITED

We have audited the financial statements of NPL Management Limited for the year ended 31 December 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 - 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 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.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- 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.

Helen George

....

Helen George (Senior Statutory Auditor).

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London

17 April 2015

NPL MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Turnover	2	79,892	77,805
Cost of sales	24	(52,117)	(52,495)
Gross profit		27,775	25,310
Administrative expenses		(21,111)	(21,122)
Operating profit	4	6,664	4,188
Interest receivable and similar income	5	511	414
Interest payable and similar charges	6	(782)	(666)
Profit on ordinary activities before taxation		6,393	3,936
Tax on profit on ordinary activities	7	(667)	(119)
Profit for the year	17	5,726	3,817

The profit and loss account has been prepared on the basis that all operations are continuing operations.

NPL MANAGEMENT LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Profit for the financial year		5,726	3,817
Dividends paid in specie – transfer of shares	8	(86)	-
Dividends paid in specie – transfer of intercompany balances	8	(3,533)	-
Actuarial (loss)/gain on post-employment scheme	19	(6,795)	8,270
Actuarial gain/(loss) on franchise adjustment	19	4,227	(8,370)
Additions to pension scheme liability	9	870	-
Tax credit on net actuarial loss taken directly to reserves		565	2
Impairment of AgPlus investment	11	(4,105)	-
Revaluation of AgPlus investment		-	2,649
Charge in relation to share-based payment		-	141
Total recognised gains and losses relating to the year		(3,131)	6,509

NPL MANAGEMENT LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Fixed assets					
Intangible assets	9		-		329
Tangible assets	10		25,519		22,726
Investments	11		-		4,191
			25,519		27,246
Current assets					
Stocks	12	-		187	
Debtors: amounts falling due within one year	13	15,070		14,691	
Cash at bank and in hand		10,562		11,519	
		25,632		26,397	
Debtors: amounts falling due after more than one year	13	-		2,345	
Creditors: amounts falling due within one year	14	(18,539)		(22,509)	
Net current assets			7,093		6,233
Total assets less current liabilities			32,612		33,479
Creditors: amounts falling due after more than one year					
Loans due after more than one year	21		(20,342)		(17,378)
Retirement benefit obligation	19		-		(680)
Provisions for liabilities	25		(244)		(264)
			12,026		15,157
Capital and reserves					
Called up share capital	16		-		-
Revaluation reserve	17		-		4,105
Retirement benefit obligation reserve	17		(5,468)		(4,335)
Share-based payment reserve	17		-		563
Profit and loss account	17		17,494		14,824
Shareholders' funds	18		12,026		15,157

Approved by the Board and authorised for issue on 27th March 2015

....
Dr B R Bowsher
Director

Company Registration No. 02937881

1 Accounting policies

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

The directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009.

The Company's revenues are largely derived from long-term contracts with UK government and competitively-won grants which, historically, have been largely unaffected by changes in the general economy. Risk is therefore limited. The directors note that on 1 January 2015 ownership of the Company and assets were transferred to the government. The Secretary of State has announced the government's intention that NPL will continue to perform services for BIS regardless of this change in ownership. We note also that the Company remains at the heart of the published strategic plans of the National Measurement System. The directors also have a good level of visibility of contracted levels of revenue. Consequently, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the accounts.

The directors considered the following uncertainties in arriving at their conclusions on going concern. Firstly, with effect from 1 January there is no requirement for BIS to provide a minimum commitment to the Company to contract future NMS activity. However, the Company was transferred into BIS ownership on 1 January 2015 and is the UK's National Measurement Institute. In addition, BIS is contracting with the new strategic partnership to maintain the Company as a going concern and appropriately capitalised. Secondly, the directors considered cash flow for the twelve months following approval of these financial statements. The cash flow forecasts included in the Corporate Plan 2015-2019 and latest management accounts give confidence that the company can pay its debts as they fall due. An independent review of the Company covenant carried out as part of the triennial revaluation of the defined benefit pension scheme concluded that this covenant had strengthened as a result of the change in ownership.

1.1 Accounting convention

The financial statements are prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards, with the exception of the investment in AgPlus which was held under an Alternative Valuation Basis until it was transferred to Serco Holdings Limited on 31 December 2014 by dividend in specie.

1.2 Long-term contracts

Turnover on long-term contracts is recorded by reference to the stage of completion of the work carried out to date, with costs incurred transferred to cost of sales. Any turnover recognised in excess of amounts invoiced is recorded as 'amounts recoverable on contracts' within debtors, with any amounts invoiced in excess of turnover recorded within 'contract deferred income'.

Anticipated future losses on contracts are provided in full.

1.3 Research and development

Research expenditure is written off as incurred and included in cost of sales (note 24). Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Company is expected to benefit. This period is between three and five years. Provision is made for any impairment.

1 Accounting policies

1.4 Intangible fixed assets and amortisation

Franchise costs are capitalised and amortised over the contract period to expiry on 31 December 2014. Provision is made for any impairment. The intangible pension asset reflects the Company's right to manage and operate the contract (see pension costs). It is amortised over the contract period that expired on 31 December 2014.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on cost over the estimated useful lives of the assets. The rates of depreciation are as follows:

Technical equipment	10-33%
Office equipment	20-33%
Furniture & fittings	10-20%

1.6 Taxation

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1.7 Leasing

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term, even if payments are not made on such a basis.

1.8 Accounting for precious metals

NPL has traditionally accounted for precious metals as stock items by performing an annual stock take and holding on the balance sheet at the lower of cost and net realisable value.

In 2014, we undertook a review of the process by consulting with the Division Heads in areas where precious metals are in use.

We have concluded that it is no longer appropriate to account for precious metals as stock items as they are purchased in small quantities as required and expensed in the year. Therefore we will expense them as consumables or capitalise as appropriate where they align to our capitalisation policy. This does not affect the operational controls in place to safeguard these materials given their value.

1.9 Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1 Accounting policies

1.10 Pensions

Defined benefit schemes

For the defined benefit pension scheme operated by the Company, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

The Company has the obligation to contribute variable amounts to a defined benefit pension scheme throughout the period of the Contract. As such, the Company's share of the defined benefit obligation less its share of the pension scheme assets that it will fund over the period of the Contact is recognised as a liability at the start of the Contract with a corresponding amount being recognised as an intangible asset. A "franchise adjustment" is calculated as the present value of the estimated deficit at the end of the Contract. The deficit at the end of the franchise period is estimated by assuming that experience remains in line with the FRS 17 assumption at the balance sheet date.

Defined contribution schemes

Contributions for the year in respect of defined contribution schemes are charged to the profit and loss account as they fall due. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet. The Company complied with government's requirements to auto-enrol staff into the Company pension scheme from February 2014.

1.11 Foreign currency translation

Foreign currency transactions are translated into sterling at the rates ruling at the dates of transaction. Monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Gains and losses on translation are included in the profit and loss account.

1.12 Share-based payments

The Company has applied the requirements of Financial Reporting Standard 20 ("FRS 20") - 'Share-based payment'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were not fully vested as of 1 January 2006.

During the period for which these financial statements have been prepared, the ultimate parent (Serco Group plc) issued equity-settled share-based payments to certain employees and operated an Inland Revenue approved Save As You Earn share option scheme open to eligible employees which allowed the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes, Binomial or Monte Carlo Simulation models depending on the type of scheme, as set out in note 34 of the Serco Group plc accounts. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

At the balance sheet date, the share-based payment reserve has been transferred to the profit and loss account reserve as the Company no longer has any liability.

1 Accounting policies

1.13 Cash flow statement and related party disclosure

During the period for which these financial statements have been prepared, The Company was a wholly-owned subsidiary of Serco Holdings Limited and is included in the consolidated financial statements of Serco Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 ("FRS 1") (revised 1996) - Cash flow statements. The Company is also exempt under the terms of Financial Reporting Standard 8 ("FRS 8") - Related party disclosure, from disclosing related party transactions with entities that are part of the Serco Group plc.

1.14 Exemption from preparing group accounts

These financial statements present information about the Company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared as the Company is a wholly-owned subsidiary of a company incorporated in Great Britain and registered in England and Wales and is therefore exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare and deliver group accounts. The only group company for which consolidated financial statements are also prepared is Serco Group plc.

2 Turnover

The total turnover of the Company for the year has been derived from its principal activity and arises wholly in the United Kingdom.

3 Information regarding directors and employees

	2014 £'000	2013 £'000
Directors' emoluments		
Emoluments (excluding pension contribution)	542	544
Pension contributions	45	26

	2014 £'000	2013 £'000
Highest paid director's remuneration		
Aggregate of emoluments (excluding pension contributions)	215	223
Accrued defined benefit pension at 31 December 2014	-	-

	No.	No.
Number of directors who:		
Are members of a defined benefit pension scheme	1	1
Exercised share options	-	1

The highest paid director did not exercise share options in the year (2013: did exercise share options).

	2014 No.	2013 No.
Average number of full-time equivalent employees during the year		
Technical staff	565	539
Administration	130	121
	695	660

	2014 £'000	2013 £'000
Employee costs		
Wages and salaries	26,755	25,529
Social security costs	2,706	2,451
Other pension costs	4,667	4,472
Share-based payment	-	141
	34,128	32,593

The 2013 Other pension cost has been increased by £2,154k to include current service cost. The directors feel that this change gives a true and fairer view.

4	**Operating profit**	**2014**	**2013**
		£'000	**£'000**
	Operating profit is stated after charging:		
	Amortisation of intangible assets	1,199	1,322
	Depreciation of tangible assets	3,623	2,681
	Operating lease rentals		
	- Plant and machinery	352	835
	- Other assets	7,757	7,590
	Auditor's remuneration - audit fees	20	20
	Auditor's remuneration - other services	5	5

5	**Interest receivable and similar income**	**2014**	**2013**
		£'000	**£'000**
	Net pension scheme interest under FRS 17	213	235
	Interest from group undertakings	298	179
		511	414

6	**Interest payable and similar charges**	**2014**	**2013**
		£'000	**£'000**
	Bank loan interest	782	666

7 Taxation	2014 £'000	2013 £'000
Domestic current year tax		
U.K. corporation tax	1,143	527
Group relief	-	-
Adjustment for prior years	-	3,925
	1,143	4,452
Foreign corporation tax		
Foreign corporation tax	-	5
Total current tax	1,143	4,457
Deferred tax		
Origination and reversal of timing differences	(678)	(584)
Deferred tax adjustments arising in previous periods	202	(3,754)
	(476)	(4,338)
	667	119

The current tax recognised for the year ended 31 December 2014 is lower than the United Kingdom corporation tax of 21.50% (2013: 23.25%). The reasons for this are set out below.

Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	6,393	3,936

Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 21.50% (2013 - 23.25%).

	2014	2013
	1,374	915
Effects of:		
Group relief with no consideration	(1,224)	-
Non-deductible expenses	264	258
Accelerated capital allowances	779	623
Foreign tax credits	-	5
Prior period adjustment	-	3,925
Research and development tax credit	-	(1,267)
Movement in short term differences	(50)	(2)
	(231)	3,542
Current tax charge for the year	1,143	4,457

8 Dividends

	2014 £'000	2013 £'000
Dividends paid in specie – transfer of shares	86	-
Dividends paid in specie – transfer of intercompany balances	3,533	-
	3,619	-

9 Intangible fixed assets

	Franchise costs £'000	Pension assets £'000	Total £'000
Cost			
At 1 January 2014	3,530	9,403	12,933
Additions	-	870	870
At 31 December 2014	3,530	10,273	13,803
Amortisation			
At 1 January 2014	3,438	9,166	12,604
Charge for the year	92	1,107	1,199
At 31 December 2014	3,530	10,273	13,803
Net book value			
At 31 December 2014	-	-	-
At 31 December 2013	92	237	329

The pension asset relates to the Company's share of the pension deficit acquired when the Contract was signed on 1 April 2004. The Company amortised the pension deficit acquired in 2004 over a 10 year period to 31 December 2014. The accounting treatment is detailed in Note 1 to the accounts.

Franchise accounting is no longer applicable.

10 Tangible fixed assets

	Technical equipment	Furniture & fittings	Office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2014	26,499	129	3,094	29,722
Additions	5,225	-	1,191	6,416
Disposals	(27)	-	(13)	(40)
At 31 December 2014	31,697	129	4,272	36,098
Depreciation				
At 1 January 2014	4,477	129	2,390	6,996
On disposals	(27)	-	(13)	(40)
Charge for the year	3,119	-	504	3,623
At 31 December 2014	7,569	129	2,881	10,579
Net book value				
At 31 December 2014	24,128	-	1,391	25,519
At 31 December 2013	22,022	-	704	22,726

11 Fixed asset investments

	Shares in subsidiary undertakings
	£'000
Valuation	
At 1 January 2014	4,191
Impairment	(4,105)
Transfer of shares	(86)
At 31 December 2014	-
Net book value	
At 31 December 2014	-
At 31 December 2013	4,191

The impairment during the year reflects an estimate of net realisable value.

The Company disposed of its 86% share in ADL on 31 December 2014 via a dividend in specie to Serco Holdings Limited.

12 Stocks

	2014 £'000	2013 £'000
Raw materials and consumables	-	187

The Company has concluded it is no longer appropriate to account for precious metals as stock (note 1.8).

13 Debtors

	2014 £'000	2013 £'000
Trade debtors	4,044	5,347
Amounts recoverable on long term contracts	6,092	4,406
Amounts owed by group undertakings	24	23
Corporation tax recoverable	-	1,765
Other debtors	2,106	195
Prepayments	1,680	2,745
Deferred tax asset (see note 15)	1,124	210
	15,070	14,691

Amounts falling due after more than one year not included in the above are:

	2014 £'000	2013 £'000
Amounts owed by group undertakings	-	2,345

The 2013 deferred tax asset balance of £210k has been reclassified from provisions to debtors. The directors feel that this reclassification gives a true and fairer view.

14 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans (see note 21)	3,659	2,883
Trade creditors	3,150	3,756
Other creditors	1,570	1,489
Accruals	3,886	5,449
Contract deferred income	5,715	7,712
Other taxes and social security	559	1,220
	18,539	22,509

The 2013 provisions balance of £264k has been reclassified from accruals to provisions for liabilities. The directors feel that this reclassification gives a true and fairer view.

15 Deferred tax asset

The deferred tax asset (included in debtors, note 13) is made up as follows:

	2014 £'000	2013 £'000
Balance at 1 January 2014	210	(4,355)
Profit and loss account	914	4,337
Taken directly to reserves	-	228
Balance at 31 December 2014	1,124	210

Of the amount credited to the income statement in 2014, £438k has been credited to cost of sales in respect of the R&D Expenditure Credit.

	2014 £'000	2013 £'000
Accelerated capital allowances	497	(227)
Other timing differences	627	239
Tax losses available	-	198
Deferred tax asset	1,124	210

The 2013 deferred tax asset balance of £210k has been reclassified from provisions to debtors. The directors feel that this reclassification gives a true and fairer view.

16 Share capital

	2014 £	2013 £
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

17 Statement of movements on reserves

	Retirement benefit obligation reserve	Revaluation reserve	Share-based payment reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	(4,335)	4,105	563	14,824	15,157
Profit for the year	-	-	-	5,726	5,726
Dividends paid in specie – transfer of shares (see note 8)	-	-	-	(86)	(86)
Dividends paid in specie – transfer of intercompany balances (see note 8)	-	-	-	(3,533)	(3,533)
Impairment of investment	-	(4,105)	-	-	(4,105)
Actuarial loss on post employment scheme	(6,795)	-	-	-	(6,795)
Actuarial gain on franchise adjustment	4,227	-	-	-	4,227
Additions to pension scheme liability	870	-	-	-	870
Tax charge on net actuarial losses taken directly to equity	565	-	-	-	565
Transfer between reserves	-	-	(563)	563	-
Balance at 31 December 2014	(5,468)	-	-	17,494	12,026

18 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	5,726	3,817
Dividends paid in specie - transfer of shares (see note 8)	(86)	-
Dividends paid in specie - transfer of intercompany balances (see note 8)	(3,533)	-
AgPlus impairment (see note 11)	(4,105)	-
AgPlus revaluation	-	2,649
Actuarial (loss)/gain on post-employment scheme (see note 19)	(6,795)	8,270
Actuarial gain/(loss) on franchise adjustment (see note 19)	4,227	(8,370)
Additions to pension scheme liability	870	-
Tax charge/(credit) on net actuarial gain taken directly to equity	565	2
Charge in relation to share-based payment	-	141
Net addition to shareholders' funds	(3,131)	6,509
Opening shareholders' funds	15,157	8,648
Closing shareholders' funds	12,026	15,157

19 Retirement benefits

The NPL Management Limited Pension Scheme

The Company operates a defined benefit scheme. All valuations were performed by independent qualified actuaries using the projected unit method to determine pension costs, updated to 31 December 2014.

a) The assets and liabilities of the scheme at 31 December 2014 and 31 December 2013 were:

	2014 £'000	2013 £'000
Equity instruments	28,676	26,848
Bonds	41,183	28,630
Liability Driven Investment (LDI)	12,818	-
Gilts	20,362	25,362
Cash	1,627	8,976
Fair value of scheme assets	104,666	89,816
Present value of scheme liabilities	(127,505)	(108,454)
	(22,839)	(18,638)
Franchise adjustment	22,839	17,788
	-	(850)
Related deferred tax asset	-	170
Net pension liability	-	(680)

b) The amounts recognised in the financial statements for the year ended 31 December 2014 and 31 December 2013 are:

Recognised in the profit and loss account

	2014 £'000	2013 £'000
Current year service cost	1,961	2,154
Recognised in arriving at operating profit	1,961	2,154
Expected return on pension scheme assets	(4,449)	(4,052)
Interest on franchise adjustment	(825)	(880)
Interest on pension liabilities	5,061	4,697
Net finance costs	(213)	(235)

19 Retirement benefits

Included within the statement of total recognised gains and losses

	2014 £'000	2013 £'000
Actual return on scheme assets	11,197	5,372
Less: Expect return on scheme assets	(4,449)	(4,052)
Other actuarial gains/(losses) (see note 19(c))	(13,543)	6,950
Change in franchise adjustment	4,227	(8,370)
Total actuarial losses recognised in the STRGL	(2,568)	(100)

c) Changes in the present value of scheme liabilities are analysed as follows for the year ended 31 December 2014 and 31 December 2013:

	2014 £'000	2013 £'000
At the start of the year	108,454	110,017
Current service cost	1,961	2,154
Scheme participants contributions	45	49
Interest cost	5,061	4,697
Benefits paid	(1,559)	(1,513)
Actuarial gains/(losses)	13,543	(6,950)
At the end of the year	127,505	108,454

Changes in the fair value of scheme assets are analysed as follows for the year ended 31 December 2014 and 31 December 2013:

	2014 £'000	2013 £'000
Assets at the start of the year	89,816	80,734
Expected return on scheme assets	4,449	4,052
Employer contributions	5,167	5,174
Contributions by employees	45	49
Benefits paid	(1,559)	(1,513)
Actuarial gains	6,748	1,320
Assets at the end of the year	104,666	89,816

19 Retirement benefits

d) History of experience gains and losses:

	Year ended 31 Dec 2014 £'000	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2010 £'000
Experience adjustments arising on scheme assets	6,748	1,320	2,221	1,355	1,613
Experience adjustments arising on scheme liabilities	-	75	-	5,603	(811)
Fair values of scheme assets	104,666	89,816	80,734	70,572	61,920
Present value of scheme liabilities	(127,505)	(108,454)	(110,017)	(93,097)	(81,777)
Total deficit in scheme	(22,839)	(18,638)	(29,283)	(22,525)	(19,857)

e) The contribution paid during the financial year ended 31 December 2014 was £5,167,000. The last formal triennial review of the NPL defined benefit pension scheme took place on 5 April 2013.

	2014 %	2013 %
Main assumptions:		
Rate of salary increases	3.10%	3.40%
Rate of increase in pensions in payment	3.00%	3.30%
Rate of increase in deferred pensions	3.10%	3.30%
Inflation assumption	3.10%	3.40%
Discount rate	3.70%	4.70%
Expected return on pension scheme assets - equity	7.10%	8.20%
Expected return on pension scheme assets - bonds	3.70%	4.60%
Expected return on pension scheme assets - LDI	3.30%	4.40%
Expected return on pension scheme assets - gilts	2.50%	3.60%
Expected return on pension scheme assets - cash	0.50%	0.50%

19 Retirement benefits

	2014 Years	2013 Years
Post-retirement mortality:		
Current pensioners at 65 – male	23.10	23.00
Current pensioners at 65 - female	26.00	25.90
Future pensioners at 65 - male	25.10	25.00
Future pensioners at 65 - female	27.90	27.80

A number of employees are members of the following other pension schemes:

Serco Pension and Life Assurance Scheme, a pre-funded defined benefit scheme. The structure of the scheme does not enable any of the group companies to identify their share of the scheme's underlying assets or liabilities, and consequently the scheme has been treated in the same way as a defined contribution scheme in the Company's financial statements. Further details on this group defined benefit scheme can be found in Note 34 of the financial statements of Serco Group plc, under the heading 'non contract specific'. The total net pension surplus on this group defined benefit scheme at 31 December 2014 was £143,901,000 (2013: £64,227,000). Employer contributions paid into the scheme by the Company during the year ended 31 December 2014 were £71,791 (2013: £69,490).

Legal & General Assurance Society Stakeholder Group Personal Pension Plan. Employer contributions paid into the scheme during the year ended 31 December 2014 of £1,396,275 (2013: £1,192,294) were charged to the profit and loss account.

Contributions outstanding for the defined benefit scheme as at 31 December 2014 were £429,650 (2013: £424,970).

20 Financial commitments

At 31 December 2014 the Company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2015:

	Plant and machinery	
	2014	2013
	£'000	£'000
Operating leases which expire:		
Within one year	151	303
Between two and five years	29	150
In over five years	-	29
	180	482

In addition to the above, on 1 April 2004, the Company entered into a new Contract with BIS (formerly DTI) for research and development services at NPL. As part of that Contract, the Company also entered into various lease arrangements at peppercorn rents. The lease arrangements are not expected to be affected by the existing contract ending.

In respect of the premises and accommodation services, the Company pays base rent £5,590,000 per annum (RPI indexed) to the NMO. This equated to a £7,757,000 rental charge in 2014.

21 Bank loans

	2014	2013
	£'000	£'000
On demand or within one year	3,659	2,883
Within one to two years	3,743	3,001
Within two to five years	9,416	8,364
After five years	7,183	6,013
	24,001	20,261

A tri-partite agreement exists between the lender, NMO and NPL. The interest payable on the loans averages at 3.36%.

22 Control

During the year ended 31 December 2014 the immediate parent company was Serco Holdings Limited.

During the year ended 31 December 2014 the ultimate parent company and controlling entity of the Company was Serco Group plc, a company incorporated in Great Britain and registered in England and Wales. Serco Group plc was the parent undertaking of the smallest and largest group to consolidate these financial statements. The financial statements of Serco Group plc are available from The Company Secretary, Serco Group plc, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.

From 1 January 2015 the Company became wholly owned by the Secretary of State for Business, Innovation and Skills (BIS).

23 Related party relationships and transactions

The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8, not to disclose details of related party transactions with other Serco Group plc companies.

The Company was contracted to supply administrative and recruitment services to The Association for Innovation Research and Technology Organisations (AIRTO), of which the Company is a member. The income received during the year totalled £82,361 (2013 - £66,654).

24 Cost of sales

Cost of sales in the current year (including R&D expenditure) is currently offset by a £3.8M R&D expenditure credit (RDEC). The new mechanism for relief is a direct cash incentive for the Company, with the gross amount available as a gross deduction against expenditure. In 2013 it was an incentive delivered as a tax relief and was therefore taken against the tax line.

25 Provisions for liabilities

The other provisions balance is made up as follows:

	2014 £'000	2013 £'000
Opening balance	264	416
Increase in provisions	136	30
Provisions released	(156)	(182)
Closing balance	244	264

The other provisions balances are made up of provisions for future loss and provisions for warranty expenses.

The 2013 provisions balance of £264k has been reclassified from accruals to provisions for liabilities. The directors feel that this reclassification gives a true and fairer view.