



# **NPL Management Ltd** **Report and Financial Statements**

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31 December 2017

**NPL MANAGEMENT LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Company Registration No: 02937881 (England and Wales)**

## **NPL MANAGEMENT LIMITED**

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## **NPL MANAGEMENT LIMITED**

### **COMPANY INFORMATION**

#### **Directors**

Sir D Grant (Non-Executive)  
Dr P A Thompson  
Dr P J A Howarth (Non-Executive)  
Prof. Sir J R McDonald (Non-Executive)  
Dr M R Sené  
Ms B Sutcliffe (Non-Executive)  
Mr P S Hadley (Non- Executive)  
Professor G M Lu (Non- Executive)  
Mr N J Perry (Non- Executive)

#### **Company Secretary**

Andy Armstrong

#### **Address**

National Physical Laboratory  
Hampton Road  
Teddington  
Middlesex  
TW11 0LW

#### **Banker**

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

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
Cambridge  
United Kingdom

## **NPL MANAGEMENT LIMITED**

### **DIRECTORS' REPORT**

I am hoping that 2017 will be seen as a significant moment in NPL's illustrious history; the year when we relaunched NPL's vision and mission to better address global challenges and accelerate UK industry. We are using NPL's heritage and wealth of expertise as a springboard to renew and reinvigorate NPL to cultivate growth across the areas the UK will most benefit from in the future: advanced manufacturing, digital, energy and environment, and life sciences and health. We will draw on over a century of expertise and world-class facilities to develop new technologies, standards and skills in industries of the future, from Industry 4.0 to the hydrogen economy.

NPL continues to fast-track UK advanced manufacturing by helping to apply the latest advances in measurement science, engineering and technology, and providing industry with a competitive edge on the global stage. Examples include: NPL's thermometry work with Metrosol has helped them win a Queen's Award for innovation; and our world-first, non-destructive, quality control method for 2D materials is helping Oxford Instruments to commercialise wafer-scale fabrication.

October 2017 was the 50th anniversary of the redefinition of the second, brought about by NPL creating the first working caesium atomic clock. NPL continues its ground breaking work in the digital arena, being part of a project to develop one of the first quantum based products, a miniaturised caesium atomic clock. NPL's quantum work is set to expand rapidly, as the groundworks for our new Advanced Quantum Metrology Laboratory have already commenced. This will provide industry with access to world-leading test and validation facilities to accelerate their commercialisation. NPL continues to be at the forefront of international standardisation, being instrumental in publishing the world's first graphene standard, helping to provide consistency across the emerging world-wide graphene industry and to increase the commercialisation of graphene.

Energy and Environment is an area we have a strong history helping the UK get more value from renewables and low-carbon technology, and increasing our understanding of emissions and pollution. This tradition continues, with NPL's research into failure mechanisms in lithium-ion batteries, winning the Engineer's 2017 Collaborate to Innovate Award. Whilst we continue to help pave the way to a hydrogen economy, we have brought together key players from the UK's hydrogen industry to highlight and prioritise the current measurement challenges facing the industry.

In the Life Science and Health area, NPL is leading the improvement of diagnosis and treatment for a broad range of significant diseases such as cancer, heart disease, dementia and diabetes, through the use of better imaging technology. In 2017 we won £9m for medical imaging from the government's Industrial Strategy Challenge Fund, which builds on the success of being awarded the CRUK funding for the 'Google Earth' of tumour mapping, which uses the revolutionary 3D ORbiSIMS instrument, conceived and designed at NPL. NPL is also a partner in the £7m Centre for Engineering Biology, Metrology and Standards, a new virtual laboratory to help the UK synthetic biology industry.

NPL launched the UK Measurement Strategy, which collates the views of over 2,500 measurement users and provides a blueprint for how highly accurate measurement will help the UK's future industrial success. This measurement strategy provided input into the UK Government's Industrial Strategy and we also helped to review how national laboratories support regional economies. We are already taking the lead in these areas, with well-established hubs in Huddersfield and Strathclyde and the latest one opening at the Cambridge University's Maxwell Centre.

We are also proud of our role as the UK leaders in defining and delivering measurement skills to a range of audiences, from apprentices to the 200+ students in our Post Graduate Institute and the 200 people we train face to face each year.

Of course, none of this would be possible if it wasn't for the amazing people who make NPL the world-leading facility that it is. The breadth and depth of NPL's scientific publications proves how impactful our current research is. All of this means that we have a fantastic opportunity in 2018 to achieve our vision to create extraordinary impact from our excellent measurement science and engineering as an exemplary national laboratory.

NPL is emblematic of the way research can drive economic and social progress. The impact of the science and engineering that we deliver is felt by everyone, everywhere. After a century as the silent partner to industry, helping to deliver now-ubiquitous innovations and advances, the next 100 years will see us continue this crucial role, but in the foreground, delivering ever greater impact to the UK.

## NPL MANAGEMENT LIMITED

### DIRECTORS' REPORT (continued)

We would encourage you to read the Annual Report and Financial Statements in conjunction with our Annual Review 2017 which brings to life NPL's work over the last year with illustrations of its economic and social impact. The Governance Statement is included by reference to this Directors' Report. The Company has chosen, in accordance with section 414C (11) of Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which otherwise would be required to be disclosed in the Directors' Report. These include: Financial risk management, future developments, post balance sheet events, dividends paid, details of disabled employees and employee consultation and form part of this report by cross-reference.

#### Directors

The current directors of the company are shown on page one. The changes in directors during the year and subsequent to year end are as follows:

	<b>Appointed</b>	<b>Resigned</b>
Professor G M Lu	1 January 2017	1 January 2017
Mr M Kearney		6 April 2018
Ms N Anson		

#### Auditor

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

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

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



*David Grant*

Sir David Grant  
Chair



*P. Thompson*

Dr Peter Thompson  
Chief Executive  
Officer

## NPL MANAGEMENT LIMITED

### GOVERNANCE STATEMENT

#### Scope of Responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of NPL policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in “Managing Public Money”, which sets out the main principles for dealing with resources in UK public sector organisations.

#### The Purpose of the Governance Statement

The Governance statement, for which I take personal responsibility, is intended to give a clear understanding of the dynamics of the business and its control structure. It explains how NPL has complied with the principles of good governance and reviews the effectiveness of its governance arrangements.

#### The Governance Framework



Roles and high-level responsibilities within the governance framework include the following:

**Minister:** The Secretary of State for Business, Energy and Industrial Strategy is the Minister with formal responsibility for NPL. Day-to-day ministerial oversight and the formal ownership role are delegated to Minister of State for Universities, Science, Research and Innovation. The Secretary of State and the Minister are answerable to Parliament for all matters relating to NPL and hold ministerial policy responsibility for NPL.

**NPL Board** ensures that NPL is working within a framework of effective governance arrangements. These governance arrangements will enable risk to be appropriately assessed and managed. The Board will also support, constructively challenge and provide strategic leadership to the NPL executive team. The Board is led by an independent, non-executive Chair.

## NPL MANAGEMENT LIMITED

### GOVERNANCE STATEMENT (continued)

#### Board Composition

The NPL Board is comprised of the following members:

- Independent Chair: Sir David Grant
- Executive Directors: Chief Executive Officer (CEO), Deputy CEO and Chief Finance Officer (CFO).
- Strategic Partners: Prof G. Q. Max Lu of the University of Surrey and Prof Sir Jim McDonald of the University of Strathclyde sit on the Board to facilitate the delivery of the strategic alliance.
- Non-Executive Directors: Paul Hadley (BEIS representative), Paul Howarth (the Chair of the STAC), Nigel Perry (the NED to challenge commercial activity) and Brigid Sutcliffe (the Chair of the Audit Committee).

#### Board attendance

2017 Board members	Feb	May	Sep	Nov	Total
Sir David Grant (Chair)	✓	✓	✓	✓	4/4
Dr Peter Thompson	✓	✓	✓	✓	4/4
Ms Nicola Anson	✓	✓	✓	✓	4/4
Mr Paul Hadley	✓	✓	✓	✓	4/4
Dr Paul Howarth	✓	✓	✓	✓	4/4
Prof G.Q. Max Lu	✓	✓	-	✓	3/4
Prof Sir Jim McDonald	✓	✓	-	✓	3/4
Mr Nigel Perry	✓	✓	✓	✓	4/4
Dr Martyn Sené	✓	✓	✓	✓	4/4
Ms Brigid Sutcliffe	✓	✓	✓	✓	4/4

#### Board Committees and their responsibilities

The following Committees assist the Board in carrying out its functions and ensure independent oversight of internal control and risk management:

- **The Remuneration Committee** approves the remuneration and incentives for employees and, in particular, for the executive directors in accordance with its terms of reference.
- **The Audit and Risk Committee** oversees audit and risk management in NPL. The Committee is responsible for providing assurance to the Board on the adequacy and effectiveness of governance, internal control and risk management arrangements.
- **The Nominations Committee** leads the appointment process for each of the Board members and for making recommendations to the Board, including the terms of service, except in relation to the Chair or the Shareholder Director. In respect of the Chair, the Shareholder engages with and involves the Nominations Committee, where appropriate.
- **The Science and Technology Advisory Council (STAC)** provides independent strategic advice, challenge and support to the National Physical Laboratory, particularly on the quality, international standing and industrial relevance of NPL's science and technology.

The Board and its committees are usually reviewed each year for their effectiveness. The Board was substantially updated in 2016 and is due for review in the first half of 2018. The Audit Committee was reviewed in late 2017.

In addition, the NPL **Accounting Officer** is responsible to the BEIS Principal Accounting Officer for the high standards of probity in the management of public funds.



## **NPL MANAGEMENT LIMITED**

### **GOVERNANCE STATEMENT (continued)**

#### **The Risk and Internal Control Framework**

The NPL Executive has overall responsibility for identifying major risks to the Company's business. All business and commercial activities contain risks and risk management is an integral part of business management. Some risks cannot be eliminated completely, so NPL's aim is to understand them and devise a control strategy. If the envisaged risk is too high for the perceived benefit to NPL then the case for pursuing the activity should be reviewed. NPL continues to maintain and update the existing internal control framework which has operated successfully for many years. As part of its wider Corporate Assurance responsibilities, NPL reviews and updates its internal controls on a rolling cycle to ensure they meet the changing needs of the organisation. The Audit Committee reviews the framework annually.

#### **Tax Compliance (Alexander Review)**

I confirm that NPL is compliant with the requirements of the Alexander Review. NPL has sought and gained assurance that the appropriate tax arrangements are in place for the contractors identified.

#### **Governance Risks in 2017**

The NPL Executive Team maintains a strategic risk register and reviews its risk landscape monthly at an Executive Governance meeting. This approach ensures strategic risk is identified, assessed and monitored. As part of the re-organisation following the retirement of the Head of the Corporate Assurance Team, the work was broken into two parts. By separating Health and Safety and Environment and Security (HSES), this has allowed the Assurance team to fully concentrate their activities on audit and assurance activities. The changes are designed to give greater clarity of role, allowing for greater focus on each team's particular specialisation.

The two most significant risks in 2017 were:

1. **Transformation Delivery Risk** - NPL fails to deliver its ambitions and vision.

The major Transformation programme that NPL is running to address future challenges and includes changes to the organisation, its culture, its ways of working and its infrastructure. One of the achievements in 2017 has been considerable progress in setting up and implementing our Managing Successful Programmes (MSP) governance. This has included the recruitment of project management/support resource and the setting up of a clear governance framework. In particular, oversight of the whole programme is now via the Transformation Steering Board, chaired by the SRO which comprises the Executive sponsors for each of the work streams and the overall Programme Manager. This takes a high-level overview of the Programme, approves tranches of Programme expenditure, approves new projects, resolves conflicts and major issues and signs off project completion (including ensuring benefits have been realised). Detailed development, delivery, monitoring and management of work-streams and projects is delegated to other groups, with clear accountabilities for each project.

2. **Serious Accident or Incident Risk** – NPL fails to respond appropriately to an emergency alert.

NPL's response to a bomb threat incident in April 2017 revealed a number of areas where improvements could be made. Debriefing from the Police and expert support from Eddystone Ltd, a security company, have helped us address these issues and to significantly improve our ability to respond to such incidents in the future. These include: a more flexible emergency response process, better communication planning, clarity of roles and more training for senior staff and others who would lead any response.

Other risks on the Strategic Risk Register in 2017 include: Machinery of Research Funding, People, Succession, Health & Safety, Cybersecurity and Workload Pressures.

Dr Peter Thompson  
Accounting Officer  
3 May 2018

## **NPL MANAGEMENT LIMITED**

### **STRATEGIC REPORT**

#### **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 the Department for Business, Energy and Industrial Strategy (BEIS) from 1 January 2015.

The directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

The Company accounts for the pension obligations in full, in accordance with the requirements of FRS 102. The directors are of the opinion that, in drawing up and approving annual accounts of the Company for 2017 that the full accounting asset was assessed at approximately £40.7m (2016: £3.4m liability). The company has contributed an additional £40m to the pension scheme in 2017 to eliminate the pension liability and potentially fully fund the pension scheme on a self-sufficient basis.

#### **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 2017. 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 BEIS.

As shown in the Company's profit and loss account on page 16, for the year ended 31 December 2017 the Company's turnover increased by 1.0% to £89.2m (2016: increase of 4.9% to £88.3m). Profit before tax increased to £1.4m (2016: £13k), and profit before tax as a percentage of turnover increased to 1.6% (2016: 0.02%). The increase in profitability for the year ended 31 December 2017 was primarily due to increased turnover, but also due to net interest receivable from the pension scheme of £696k (2016: net interest payable of £192k). Turnover per number of employees for the year ended 31 December 2017 was £116k (2016: £97k).

As shown in the Company's balance sheet on page 19, net assets increased to £84.9m at 31 December 2017 (2016: £41.4m), reflecting the increase in the pension asset following the contribution from NPL to the NPL Pension Scheme. Also, BEIS invested £37m (2016: £59m) into NPL following the issue of 37 ordinary shares (2016: 18 ordinary shares).

An important measure of the Company's health is utilisation of our staff on turnover generating services. During the year this was 75.7% (2016: 75.0%) 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 2017 amounted to 87.6% compared with 86.0% for the year ended 31 December 2016.

#### **Events after the balance sheet date**

There have not been any significant events since the balance sheet date.

#### **Dividends**

No dividends have been paid or declared in the year. The directors do not recommend a final dividend (2016: £nil).

## **NPL MANAGEMENT LIMITED**

### **STRATEGIC REPORT (continued)**

#### **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 majority of its revenue from UK Government departments and so is not exposed to significant credit risk. The Company transferred to BEIS on 1 January 2015, and BEIS assumes full ownership for the long term. The overarching contract between NPL and BEIS that sets out the terms and conditions of any transactions is in place and no material change in revenue streams from this is anticipated.

#### **Environment**

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.

#### **Employee involvement**

NPL recognises that a strong employee voice is central to employee engagement and well-being at NPL. The Company has a number of communication channels designed to inform employees of factors affecting the business, including a quarterly all employee communication session with the CEO and other key personnel and monthly team meetings with line management.

All communication channels are intended to be two-way, with feedback from employees being strongly encouraged by a leadership team who value their views and ideas.

In 2017 NPL launched ThymoMetrics, a new platform to support employee engagement which aims to provide a simple, easy to use system for employees to have their voices heard at NPL. ThymoMetrics provides a cutting edge, 'Real Time' way to measure employee engagement and mood.

The platform is available all day, every day for employees to feedback their feelings regarding the organisation and/or communicate questions, concerns or suggestions that may be on their mind. The platform also allows NPL to seek feedback on and engage in targeted, yet anonymous discussions with employees on such topics as the quality of leadership, and the salary and benefits structure.

Other more private mechanisms for feedback also exist including a direct route to the HR team and CEO.

Maintaining regular two-way communication with employees in 2017 was critical as NPL continued its transformation programme, designed to enable NPL to deliver greater impact from science. A key focus in 2017 has been involving the wider leadership team in the shaping of the change programme as it evolves so that we continue to build good understanding among the workforce as to the role each plays in achieving our 5 year plan and the key performance targets which NPL has set.

We have also implemented an appropriate governance framework (using the well-established Managing Successful Programmes approach) to ensure appropriate monitoring, management and coordination of the programme.

NPL remains committed to celebrating the success of employees through its values award scheme and some 110 employees were rewarded during 2017 for demonstrating outstanding behaviours and achievements.

## **NPL MANAGEMENT LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Culture and working environment**

NPL recognises that none of our actions will succeed without the right culture and working environment. To this end, we introduced our NPL Values in 2016 and have been embedding the desired behaviours through our Values in Action programme which launched in Q4 of 2017. The Values in Action programme lets employees know how they can demonstrate the NPL values in the way they act, both internally with their colleagues and externally with customers and partners. They are important because we recognise that how we go about our work is as important as what we do. We are focussed on providing an environment that is truly inclusive, underpinned by respect at all time.

We offer flexible working to all our employees including part time working which enables our employees to balance successful careers with outside commitments.

We are committed to supporting women back into the workforce after time away, through a generous maternity package, a subsidised nursery on our main site, flexible working and coaching.

#### **Diversity and Inclusion**

NPL embraces diversity, employing individuals based on their aptitude and ensuring people from different backgrounds are valued as individuals. A range of employment models and methods of engagement with skilled individuals are in place through full time employment, studentships and visiting researchers from all over the world. In addition to this, the Company is a member of Stonewall as a Diversity Champion and is a supporter of the Project Juno code of practice. Supported by the Diversity Taskforce NPL has introduced a number of networks which range from a Women's network, an LGBT+ Network Mental health network, a dyslexia network and a dementia group.

In 2018, we continue to place a strong focus on nurturing a diverse and inclusive culture at NPL, where all employees are supported to fulfil their potential. We continue to offer focused development programmes, coaching and keynote speakers to develop and inspire our female workforce. Our focus on raising awareness of key diversity issues and the potential for unconscious bias across the organization continues. All line managers will have attended a ½ day workshop on tackling unconscious bias by summer 2018, and it will be a core theme of all our diversity, recruitment and performance management training. Our Diversity Taskforce and the wider workforce are strongly involved in shaping the diversity-focused learning we offer at NPL. Following a close partnership between the Taskforce and the HR team, we will be offering workshops on 'Neurodiversity in the Workplace' in 2018, and a new 'Diversity for All' introductory e-learning module for all staff. Diversity isn't an afterthought for us at NPL; it's central to our value of 'Nurture & Respect' and sits at the heart of all we do.

#### **Encouraging women into Science, Technology, Engineering, and Math (STEM)**

As part of NPL's commitment to equal opportunities and diversity we have signed up to the Institute of Physics' Project Juno scheme, which was set up to tackle the under-representation of women in physics. As part of our work to improve the working culture at NPL, and progress to the next level in the Juno programme, NPL's Juno committee ran an internal survey in 2017 to gather views about career progression, flexible working, career breaks and the working environment at NPL.

In addition, in 2017 we agreed to sponsor a 2-year (part time) Fellowship to support an individual who wishes to return to a STEM research career after a career break of at least 2 years. We are supported in this programme by the Daphne Jackson Trust whose aim is to provide these researchers who have been out of research for a while, so may well have lost confidence, with the support, mentoring and guidance they need to return to STEM careers. Due to the extremely positive reaction to this programme, we are keen to expand the number of Fellowships we take on.

**NPL MANAGEMENT LIMITED**

**STRATEGIC REPORT (continued)**

**Apprenticeship Scheme**

As an active member of the 5% Club, the campaign focused on creating momentum behind the recruitment of apprentices and graduates into the UK workforce. NPL has committed to ensuring 5% of its workforce are apprentices, graduates or sponsored students on structured programmes. Entering its fourth year of the 5 year commitment, NPL has grown its apprenticeship scheme to 4.9% of the total workforce with a cohort of 41 apprentices on an active programme which ranges from junior scientists, engineers, business administration, Finance, IT and digital marketing and metrology in 2017.

**Outreach Programme**

NPL has a mature outreach programme which has been running for over 10 years. The programme consists of three main aims that all Government funded science programmes are expected to contribute to: Supporting the STEM agenda, increasing public awareness and engagement in science, and ensuring NPL operates within the spirit of Corporate Social Responsibility (CSR).

The impact of NPL's Outreach programme so far includes interacting with approximately 38,000 students (from Primary school to Masters), 5,000 teachers and 12,000 general public. These interactions have developed a diverse talent pipeline of apprentices, work experience students, sandwich course students and summer placement students.

On behalf of the board



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Dr P Thompson

Director

3rd May 2018

## **NPL MANAGEMENT LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NPL MANAGEMENT LIMITED**

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

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NPL Management Limited (the "company") which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet; and
- the related notes 1 to 20

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

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

We have nothing to report in respect of these matters.

#### **Other information**

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NPL MANAGEMENT LIMITED (continued)**

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

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### **Use of our report**

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

### **Report on other legal and regulatory requirements**

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

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.



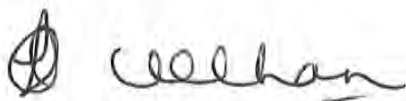
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NPL MANAGEMENT LIMITED  
(continued)**

**Matters on which we are required to report by exception**

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

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

We have nothing to report in respect of these matters.

A handwritten signature in black ink, appearing to read 'Lee Welham', with a stylized circular mark to the left.

Lee Welham, FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

31 May 2018

**NPL MANAGEMENT LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £000s	2016 £000s
Turnover	3	89,187	88,310
Cost of sales		(58,287)	(58,095)
<b>Gross Profit</b>		<b>30,900</b>	<b>30,215</b>
Administrative expenses		(29,762)	(28,793)
<b>Operating Profit</b>		<b>1,138</b>	<b>1,422</b>
Interest receivable and similar income	6	698	6
Interest payable and similar charges	7	(393)	(1,415)
<b>Profit before taxation</b>	<b>5</b>	<b>1,443</b>	<b>13</b>
Tax on profit	8	(277)	(816)
<b>Profit/(loss) for the year</b>		<b>1,166</b>	<b>(803)</b>

All activities are derived from continuing operations.

**NPL MANAGEMENT LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £000s	2016 £000s
<i>Profit/(loss) for the financial year</i>		1,166	(803)
<i>Other comprehensive income</i>			
Pension scheme actuarial gains (losses)	16	6,435	(13,392)
		6,435	(13,392)
Tax on other comprehensive income – corporation tax	8	-	1,012
Tax on other comprehensive income – deferred tax	8	(1,044)	1,667
<b>Other comprehensive profit/(loss) net of taxation</b>		5,391	(10,713)
<b>Total comprehensive profit/(loss) for the year</b>		<b>6,557</b>	<b>(11,516)</b>

**NPL MANAGEMENT LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

*FOR THE YEAR ENDED 31 DECEMBER 2017*

	Share capital £000	Share premium reserve £000	Retired benefit obligation reserve £000	Profit and loss account £000	Total £000
<b>Balance at 1 January 2016</b>	-	-	(1,036)	(5,042)	(6,078)
Loss for the year	-	-	-	(803)	(803)
Actuarial loss on pension employment scheme (Note 16)	-	-	(13,392)	-	(13,392)
Tax charge on net actuarial losses (Note 7)	-	-	2,679	-	2,679
<b>Total comprehensive income</b>	-	-	(10,713)	(803)	(11,516)
Issue of share capital	-	59,000	-	-	59,000
<b>Balance at 31 December 2016</b>	-	59,000	(11,749)	(5,845)	41,406
Profit for the year	-	-	-	1,166	1,166
Actuarial gain on pension employment scheme (Note 16)	-	-	6,435	-	6,435
Tax charge on net actuarial gains (Note 8)	-	-	(1,044)	-	(1,044)
<b>Total comprehensive income</b>	-	-	5,391	1,166	6,557
Issue of share capital (Note 14)	-	37,000	-	-	37,000
<b>Balance at 31 December 2017</b>	-	96,000	(6,358)	(4,679)	84,963

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The retired benefit obligation reserve represents cumulative actuarial gains and losses and cumulative credits or charges derived by deferred tax movement in relation to the pension scheme.

The share premium reserve represents the premium to their nominal value arising on the issue of equity shares, net of issue expenses.

**NPL MANAGEMENT LIMITED**

**BALANCE SHEET**

*AS AT 31 DECEMBER 2017*

	Notes	2017 £000s	2016 £000s
<b>Fixed assets</b>			
Tangible assets	9	39,309	31,420
<b>Non-current assets</b>			
Deferred tax	10	7,713	6,487
Retirement benefit asset	16	40,734	-
<b>Current assets</b>			
Debtors: amounts falling due within one year	11	27,705	22,551
Cash at bank and in hand		13,247	14,995
<b>Creditors: amounts falling due within one year</b>	12,13	(30,316)	(21,882)
<b>Net current assets</b>		<b>10,636</b>	<b>15,664</b>
<b>Total assets less current liabilities</b>		<b>98,392</b>	<b>53,571</b>
<b>Creditors: amounts falling due after more than one year</b>			
Loans due after more than one year	17	(13,429)	(8,786)
Retirement benefit obligation	16	-	(3,379)
<b>Net assets</b>		<b>84,963</b>	<b>41,406</b>
<b>Capital and reserves</b>			
Share capital	14	-	-
Share premium reserve	15	96,000	59,000
Retirement benefit obligation reserve		(6,358)	(11,749)
Profit and loss account		(4,679)	(5,845)
<b>Shareholders' funds</b>		<b>84,963</b>	<b>41,406</b>

The financial statements of NPL Management Limited (company number 02937881) were approved by the Board of Directors and authorised for issue on . These were signed on its behalf by:

Dr P A Thompson  
Director

3rd May 2018

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

***FOR THE YEAR ENDED 31 DECEMBER 2017***

**1. Accounting policies**

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

***a. General information and basis of accounting***

NPL Management Limited is a company incorporated in the United Kingdom under the Companies Act. The Company is a private Company limited by shares and is registered in England and Wales. The registered office is given in note 19. The nature of the company's operations and its principal activities are set out in the Strategic Report.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Company is consolidated within the Whole Government Accounts and is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the Cash Flow Statement and related notes. The Company is also a qualifying entity for the disclosure exemptions relating to the requirements of Section 11 Paragraphs 11.39 to 11.48A as the equivalent disclosures required by the FRS are included in the consolidated financial statements of the Group in which the Company is consolidated.

The functional currency of NPL Management Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. Foreign operations are included in accordance with the policies set out below.

***b. Going Concern***

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 principally derived from long-term contracts with the 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 transferred to the government. The Secretary of State announced the government's intention that NPL will continue to perform services for BEIS regardless of this change in ownership. We note also that the Company remains at the heart of the newly published UK Measurement Strategy. The directors also have a good level of visibility of contracted levels of revenue. In addition, BEIS made an additional £37m investment in NPL in March 2017, following an investment of £59m in March 2016. The pension deficit has now been eliminated, it is an asset of £40.7m at the end of 2017. 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 financial statements.

The directors considered the following uncertainties in arriving at their conclusions on going concern. Firstly, with effect from 1 January 2015 there has been no requirement for BEIS to provide a minimum commitment to the Company to contract future NMS activity. However, since the Company was transferred into BEIS ownership on 1 January 2015 and remains the UK's National Measurement Institute, significant work continues to be contracted for 2018-19, and a new 5 year business plan has been agreed. In addition, BEIS have signed a contract with a 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 forecast 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 in 2016 concluded that this covenant had strengthened.

## **NPL MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

##### ***c. Long-term contracts***

Turnover from long-term contracts represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. Any turnover recognised in excess of amounts invoiced is recorded as 'amounts recoverable on contracts' with debtors. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

##### ***d. Grant income***

The Company accounts for a capital grant income as deferred income and recognises the revenue as it utilises the assets for which the grant income was received.

##### ***e. Research and development***

Research expenditure is written off as incurred and included in cost of sales. 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 Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

##### ***f. Tangible fixed assets and depreciation***

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

Depreciation is provided on all tangible fixed assets 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 and fittings	10-20%

##### ***g. Taxation***

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

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

## **NPL MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

##### ***h. 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.

##### ***i. Financial assets***

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs.

##### ***Loans and receivables***

Trade debtors, loans, other debtors and prepayments that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. They are included in current assets, except where maturities are in greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other debtors' and 'cash and cash equivalents' in the Balance Sheet.

##### ***De-recognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers then financial asset and substantially all the risks and rewards of ownership to another entity.

##### ***j. Financial liabilities***

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

##### ***Other financial liabilities***

Loans and borrowings are recognised initially at fair value of the consideration received, less transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

##### ***De-recognition of financial liabilities***

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled, or they expire.



**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. Accounting policies (continued)**

***j. Financial liabilities (continued)***

***Equity instruments***

Ordinary shares are classified as equity. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

***k. Employee benefits***

***Defined benefit schemes***

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

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

***Defined contribution schemes***

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

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

***l. Foreign currency***

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Gains and losses on translation are included in the profit and loss account as they arise.

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. Critical accounting judgements and sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

***Critical judgements in applying the Company's accounting policies***

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

***Timing of revenue recognition (note 3)***

NPL is required to make an assessment about the timing and quantum of revenue recognised. NPL's revenue recognition policy requires forecasts to be made about the outcomes of its long-term contracts, including requiring judgements to be made on the cost forecasts of delivering those contracts. Further, for contracts which span the balance sheet date, consideration is required concerning the stage of completion of that contract. Capital grant's revenue is recognised as the assets, for which the grant income was received, is utilised.

***Classification of leases as operating (note 17)***

NPL have leases which are used in the delivery of its contracts. The classification of these as operating or finance leases is determined by reference to the duration of the contract against the assets' useful lives and the value of the contract against the fair value of the assets.

***Recoverability of deferred tax assets (note 8)***

NPL has recognised a deferred tax asset as a result of losses in the business from the recognition of the pension liability. NPL is required to make a judgement concerning the timing and likely extent of use of those tax losses against the future profitability of the business.

The directors do not consider there to be any critical sources of estimation uncertainty.

**3. Turnover**

An analysis of the Company's turnover by class of business is set out below:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
National Measurement System	54,859	53,714
Non National Measurement System	34,328	34,596
<b>Total</b>	<b>89,187</b>	<b>88,310</b>

All turnover arose in the United Kingdom (2016: all turnover arose in the United Kingdom).

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

*FOR THE YEAR ENDED 31 DECEMBER 2017*

**4. Information regarding directors and employees**

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

	2017 No.	2016 No.
<b>Average number of full-time equivalent employees during the year</b>		
Technical staff	579	584
Administration	190	161
	769	745

Their aggregate remuneration comprised:

	2017 £000s	2016 £000s
Wages and salaries	30,174	32,706
Social security costs	3,299	3,103
Other pension costs	6,354	5,550
	39,827	41,359

**Directors' remuneration**

	2017 £000s	2016 £000s
<b>Directors' emoluments</b>		
Emoluments (excluding pension contribution)	509	498
Pension contributions	80	95
	589	593

	2017 £000s	2016 £000s
<b>Highest paid director's remuneration</b>		
Aggregate of emoluments	188	163
Pension contributions	14	13
	202	176

	2017 No.	2016 No.
<b>Number of directors who:</b>		
Are members of a defined benefit pension scheme	-	-

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**5. Profit before taxation**

Profit before taxation is stated after charging:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Depreciation of tangible assets	4,944	4,741
Operating lease rentals		
-Plant and machinery	64	121
-Other assets	13,766	13,636
Loss on disposal of property, plant and equipment	48	-
Research and development expense	31,859	31,252

The analysis of auditor's remuneration is as follows is as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	45	36
Fees payable to the Company's auditor for other services	3	2
<b>Total fees</b>	<b>48</b>	<b>38</b>

**6. Interest receivable and similar income**

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Bank interest receivable	2	6
Interest on defined benefit pension scheme	696	-
	<b>698</b>	<b>6</b>

**7. Interest payable and similar charges**

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Interest on defined benefit pension scheme	-	192
Bank loan interest	393	1,223
	<b>393</b>	<b>1,415</b>

**NPL MANAGEMENT LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2017****8. Taxation**

The tax charge comprises:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
<b>Analysis of tax charge for the period</b>		
<i>Current tax</i>		
UK corporation tax at 19.25% (2016: 20.00%)	-	1,012
Adjustments in respect of prior periods	-	642
	-	<b>1,654</b>
Foreign tax credits	-	6
Total current tax charge	-	<b>1,660</b>
<i>Deferred tax</i>		
Origination and reversal of timing differences	226	(600)
Adjustment in respect of prior periods	51	(541)
Effect of tax rate change on opening balance	-	297
Total deferred tax charge/(credit)	<b>277</b>	<b>(844)</b>
Tax on profit on ordinary activities	<b>277</b>	<b>816</b>
<b>Tax relating to other comprehensive income</b>		
<i>Current tax</i>		
UK corporation tax at 19.25% (2016: 20.00%)	-	(1,012)
<i>Deferred tax</i>		
Origination and reversal of timing differences	1,044	(1,667)
Tax relating to other comprehensive income	<b>1,044</b>	<b>(2,679)</b>

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**8. Taxation (continued)**

<b>Deferred tax asset</b>	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Accelerated capital allowances	2,843	1,995
Short term timing differences	(4,289)	4,411
Tax losses carried forward and other deductions	7,395	907
Other	2,152	1,439
<b>Total deferred tax asset</b>	<b>8,101</b>	<b>8,752</b>
<i>Movement in provision:</i>		
Asset at start of year	8,752	6,215
Deferred tax (charge)/credit in the Profit and Loss Account for the year	(277)	844
Deferred tax charge in the Statement of Comprehensive Income	(1,044)	1,667
Accounts transfer	670	26
<b>Asset at end of year</b>	<b>8,101</b>	<b>8,752</b>

The standard rate of tax applied to reported profit is 19.25% (2016: 20.00%). The applicable tax rate has changed following the substantive enactment of the Finance Act 2016.

The tax charge recognised for the year ended 31 December 2017 is lower than the United Kingdom corporation tax rate of 19.25% (2016: 20.00%). The reasons for this are set out below.

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
<b>Reconciliation of tax charge</b>		
Profit on before tax	1,443	13
Tax on profit at standard corporation tax rate of 19.25% (2016: 20.00%)	278	2
<i>Effects of:</i>		
Expenses not deductible for tax purposes	28	18
Adjustments to brought forward values	-	(1)
Other differences	14	(7)
R&D expenditure credits	64	-
RDEC credit	(128)	-
Foreign tax credits	-	6
Amounts relating to other comprehensive income	1,239	-
Deferred tax posted directly	(1,044)	-
Adjustments to tax charge in respect of previous periods	-	642
Adjustments to tax charge in respect of previous periods – deferred tax	-	(541)
Adjust opening and closing tax rates	(174)	696
Rounding difference	-	1
<b>Tax charge for the year</b>	<b>277</b>	<b>816</b>

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**9. Tangible fixed assets**

	Technical equipment £000	Furniture & fittings £000	Office equipment	Total £000s
<b>Cost</b>				
At 1 January 2017	45,640	129	4,770	50,539
Additions	12,881	-	-	12,881
Disposals	(131)	-	-	(131)
At 31 December 2017	58,390	129	4,770	63,289
<b>Depreciation</b>				
At 1 January 2017	14,970	129	4,020	19,119
Charge for the year	4,597	-	347	4,944
Disposals	(83)	-	-	(83)
At 31 December 2017	19,484	129	4,367	23,980
<b>Net book value</b>				
At 31 December 2017	38,906	-	403	39,309
At 31 December 2016	30,670	-	750	31,420

**10. Deferred tax asset**

The deferred tax asset has moved in the year as follows:

	2017 £000s	2016 £000s
<b>Recognition of deferred tax</b>		
Accelerated capital allowances	2,843	1,995
Short term timing differences	(4,289)	4,411
Tax losses carried forward and other deductions	7,395	907
Other	2,152	1,439
Total deferred tax asset	8,101	8,752
<i>Movement in deferred tax asset:</i>		
Asset at 1 January	8,752	6,215
Deferred tax (charge)/credit in the Profit and Loss Account for the year	(277)	844
Deferred tax (charge)/credit in the Statement of Comprehensive Income	(1,044)	1,667
Accounts transfer	670	26
<b>Deferred tax asset at 31 December</b>	8,101	8,752

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**10. Deferred tax asset (continued)**

The utilisation of the deferred tax asset is expected to occur as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Within one year	388	2,265
More than one year	7,713	6,487
	<b>8,101</b>	<b>8,752</b>

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

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

It is not expected that this rate reduction will have a material impact on NPL Management Limited.

There are no unrecognised deferred tax assets or liabilities at 31 December 2017 (2016: none).

**11. Debtors**

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
<b>Amounts falling due within one year</b>		
Trade debtors	11,329	4,559
Amounts recoverable on long term contracts	7,254	8,219
Other debtors	104	129
Prepayments	3,105	2,648
RDEC tax asset	5,525	4,731
Deferred tax asset (see note 10)	388	2,265
	<b>27,705</b>	<b>22,551</b>



**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**12. Creditors: amounts falling due within one year**

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Bank loans (see note 18)	1,541	1,009
Trade creditors	7,106	4,051
Other creditors	7,943	4,174
Accruals	5,376	6,018
Contract deferred income	7,482	5,168
Other taxes and social security	868	1,343
Provisions for liabilities (see note 13)	-	119
	<hr/> <b>30,316</b>	<hr/> <b>21,882</b>

Within deferred income is £6,421k (2016: £2,464k) of grant income from the Department of Business, Innovation and Skills to fund the purchase of some capital equipment. There are no unfulfilled conditions and contingencies attached to this grant income.

**13. Provisions for liabilities**

The other provisions balance is made up as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Opening balance	119	33
Increase in provisions	-	86
Provisions released	(119)	-
Closing balance	<hr/> -	<hr/> <b>119</b>

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

**14. Share capital**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Allotted, called up and fully paid</b>		
57 (2016 – 20) Ordinary shares of £1 each	<hr/> 57	<hr/> 20

During the year the company issued 37 ordinary shares with nominal value of £1 each for consideration of £37m. All shares rank equally.

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**15. Share premium reserve**

	<b>Share premium £'000</b>
Balance at 1 January 2017	59,000
Premium arising on issue of equity shares	37,000
Expenses of issue of equity shares	-
Balance at 31 December 2017	<u><u>96,000</u></u>

**16. Employee benefits**

*The NPL Management Limited Pension Scheme*

The Company operates a defined benefit scheme for qualifying employees (closed to new members) of the Company.

Under the Scheme, the employees are entitled to retirement benefits varying between 1.111 and 1.667 per cent of Final Pensionable Pay for each year of Pensionable Service on attainment of a their Normal Retirement Age of 60. No other post-retirement benefits are provided. The Scheme is a funded scheme.

Under the Schedule of Contributions agreed with the pension scheme trustees following conclusion of the formal actuarial valuation conducted as at 13 April 2017, the Company is contributing to the Scheme at the rate of 47.9% of active members' Pensionable Pay less 3.4% of members' Band Earnings. Following the contribution of £37m to the Scheme in March 2017, which resulted in the Scheme being fully funded on the Scheme's statutory funding basis, no further deficit contributions are being made to the Scheme.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2017 by independent qualified actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	<b>Valuation at</b>	
	<b>2017</b>	<b>2016</b>
Key assumptions used:		
Discount rate	2.6%	2.7%
Rate of salary increases	3.3%	3.3%
Rate of increase in pensions in payment	2.4%	2.4%
Rate of increase in deferred pensions	3.3%	3.3%
Inflation (RPI)	3.3%	3.3%

***Mortality assumptions:***

The assumed life expectations on retirement at age 60 are:

	<b>Valuation at</b>	
	<b>2017 years</b>	<b>2016 years</b>
Retiring today:		
Males	28.8	28.7
Females	30.9	30.8
Retiring in 15 years:		
Males	30.2	30.0
Females	32.5	32.4

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**16. Employee benefits (continued)**

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

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Current service cost	2,650	1,911
Net interest (gain)/ cost	(696)	192
Plan introductions, changes, curtailments and settlements	369	410
	<u>2,323</u>	<u>2,513</u>

Recognised in other comprehensive income

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Total (income)/cost relating to defined benefit scheme	<u>(6,435)</u>	<u>13,392</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
At 1 January	169,775	105,917
Interest income	5,341	4,753
Return on plan assets (excluding amounts included in net interest cost)	4,115	27,171
Contributions from the employer	40,001	34,515
Contributions from scheme participants	46	64
Benefits paid	(2,260)	(2,235)
Admin expenses paid from plan assets	(369)	(410)
At 31 December	<u>216,649</u>	<u>169,775</u>

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

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
At 1 January	173,154	127,906
Service cost	2,650	1,911
Interest expense	4,645	4,945
Benefits paid	(2,260)	(2,235)
Settlement payments from employer	46	64
Effect of change in assumptions	(2,320)	39,759
Effect of experience adjustments	-	804
At 31 December	<u>175,915</u>	<u>173,154</u>
<b>Net (asset) liability recognised in the balance sheet</b>	<u><b>(40,734)</b></u>	<u><b>3,379</b></u>

**NPL MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**16. Employee benefits (continued)**

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

	<b>Fair value of assets</b>	
	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Cash and cash equivalents	625	21,034
Equity instruments	24,248	37,730
Debt instruments	163,208	76,922
Real Estate	4,025	-
Other assets	24,543	34,089
	<b>216,649</b>	<b>169,775</b>

**17. Financial commitments**

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

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
<b>Operating leases which expire</b>		
Within one year	63	97
Between one and five years	17	80
	<b>80</b>	<b>177</b>

In addition to the above, on 1 April 2004, the Company entered into a new Contract with BEIS for research and development services at NPL. As part of the Contract, the Company also entered into various lease arrangements at peppercorn rents. The lease arrangements have not been affected by that Contract ending.

In respect of the premises and accommodation services, the Company paid base rent of approximately £13,766k in 2017 to BEIS (2016: £13,630k).

**18. Bank loans**

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Within one year	1,541	1,009
Between one and two years	1,328	1,016
Between two and five years	4,273	3,083
In over five years	7,828	4,687
	<b>14,970</b>	<b>9,795</b>

The loan facility is provided by BEIS to finance the purchase of capital equipment and the creation of associated infrastructure for the laboratories and testing facilities that support the National Measurement System (NMS).

The loan is repayable over a period of 9-year term finishing in 2027. The rate of interest is fixed at 3.5%.

## **NPL MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

*FOR THE YEAR ENDED 31 DECEMBER 2017*

#### **19. Controlling party**

NPL Management Limited's registered office is National Physical Laboratory, Hampton Road, Teddington, Middlesex, TW11 0LW. The Company is wholly owned by the Secretary of State for Business, Energy and Industrial Strategy ('BEIS'). The smallest and largest group that the Company's financial statements are consolidated into are the Whole Government Accounts, available at [www.gov.uk](http://www.gov.uk) and from The National Archives

#### **20. Related parties**

The Company has taken advantage of the exemption granted by FRS 102 not to disclose details of related party transactions with BEIS and other entities within its Group.

The total remuneration for key management personnel for the year totalled £589k (2016: £593k), being remuneration disclosed in note 4.