HR Wallingford Limited

Annual Report and Financial Statements
For the year ended 31 March 2016

Company No. 02562099

Company information

Company registration number	02562099
Registered office	Howbery Park Wallingford Oxfordshire OX10 8BA
Directors	AJ Brown MP Dearnaley LK Patterson KA Powell BN Tomlinson
Company secretary	NA Norris
Independent auditors	KPMG LLP Arlington Business Park Theale Reading RG7 4SD
Bankers	Lloyds Bank plc Davidson House Forbury Square Reading RG1 3EU Barclays Bank plc Apex Plaza Forbury Road Reading RG1 1AX

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Strategic report

The directors present their strategic report on the company for the year ended 31 March 2016.

Principal activity

The principal activity of the company is the provision of contract research and consulting services in hydraulics to government and the civil engineering industry.

Review of business

Both the level of business during the year and financial position at the year-end were satisfactory. The directors expect that the present level of activity will be sustained for the foreseeable future.

Principal risks and uncertainties

The company's internal controls are designed to meet the company's particular needs and the financial risks to which it is exposed. In this context the controls can provide only reasonable, not absolute, assurance against material errors, losses or fraud.

The company's organisational structure is clearly defined and management have a responsibility for identifying the risks and putting in place procedures to monitor and mitigate significant financial risks. In addition the executive directors take an active role in assessing the potential financial risks in all areas of the business. This is achieved through both the normal monthly review of the management accounts and also through day-to-day management control.

The controls in place ensure that any financial risk is identified and appropriate action taken. The company's pricing policy is sustainable and appropriate credit risk is accepted. In order to manage credit risk a customer's payment history or credit reference is taken into account.

There is a range of risks and uncertainties facing the company. The directors maintain a risk register that is designed to identify and evaluate risks as soon as possible and co-ordinate the implementation of suitable measures to mitigate such risks. The list below is not exhaustive but comprises the principal risks that the directors believe could have a significant impact on the company's performance.

Price risk
Competition in our principal markets is significant, though in many there are complex barriers to entry, preventing rapid changes occurring within our global market of research and consultancy in civil engineering and environmental hydraulics. Retaining existing clients and developing strong long term relationships is therefore important.

Staff risk
The company's continued competitive and reputational success depends upon having sufficient staff with appropriate skills. There is a risk that if the company loses or fails to attract personnel of the requisite calibre this could adversely impact the business. So, as well as ensuring our pay and benefits are comparable to or better than industry norms, we continue to invest in training and developing our people to the highest standards.

Reputational risk
The company has a unique culture which is embraced in our guiding principles and the attitude of our staff towards delivering leading edge research and consultancy to maintain our reputation. Any design, management or communication errors can all threaten the reputation of the business which would seriously affect our sustainability. Therefore we continually aim to improve our understanding of our clients working environment; their priorities, their needs and their expectations.

Strategic report (continued)

Pension scheme risk
The company operates a defined benefit pension scheme which closed to future accrual of benefits at 31 March 2014. Details are included in note 16. The pension scheme is in deficit and the directors have a formal on-going plan to deal with this deficit. It should be noted that even small changes in the key assumptions could result in a large change in the net liability. The directors monitor the pension scheme and assumptions on an annual basis.

Brexit
The company will be affected by the Brexit decision in June 2016. It is too early to ascertain the effects until the outcome of the exit negotiations by government are known. However in the short term the fall in the value of sterling has been beneficial as with significant overseas business our pricing is more competitive. In addition, it is understood that research funding under European Framework Agreements will be maintained by the UK government after we leave Europe.

Liquidity risk
The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient funds for operational and planned expansions.

Interest rate cash flow risk
The company enjoys a positive cash flow from operations with adequate long term banking arrangements in place.

The company will, where appropriate, hedge interest rates to manage risk. At 31 March 2016 an interest rate swap was in place regarding the funding of a property leased to a third party. The details are included in the notes to the financial statements. The company is not aware of any financial risk that has been identified and no action has been taken by the directors.

Foreign exchange risk
The majority of the company's sales are in sterling but the company will, for material non-sterling sales, hedge any foreign currency exchange exposure. At 31 March 2016 there were no forward contracts in place.

Key performance indicators

The directors are of the opinion that the KPIs are turnover, operating profit, research expenditure, capital investment and cash generation:

Turnover fell in the financial year by £2.7m due to difficult market conditions in the energy sector. Turnover is forecast to recover in the next financial year. Operating profit increased due to a reduction in other operating charges and a gain on the disposal of the solar park investment. The Company continued to undertake research on behalf of the Group into new areas of hydraulic engineering. Last year several major capital expenditure investments were completed and in the current financial year expenditure was made to improve the IT infrastructure. The cash position improved during the year by £1.3m to £2.8m and the forecast indicates further improvement. Non-financial indicators are also used by the Company as appropriate, for example customer and employee feedback.

The company maintains a rolling three year internal strategy plan. The plan targets growth in sales, research and cash generation. The directors monitor progress against plan on a regular basis, adjusting future objectives annually in line with current circumstances.

By order of the Board

B N Tomlinson
Director
30 November 2016

Report of the directors

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

Future developments

Both the level of business during the year and financial position at the year end were satisfactory. The directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends

The directors have not recommended payment of a dividend for the year (2015: £nil).

Research and development

The company has a commitment to research and development in order to maintain and enhance product technology and retain a competitive position in the market. The company has endorsed the RCUK Policy and Code of Conduct on the Governance of Good Research Conduct and the Concordat to Support the Career Development of Researchers. The Concordat consists of principles for the future support and management of research careers, support and management of researchers and emphasises the responsibility of researchers to take control of their career and to further it through informed decisions.

During the year research and development costs incurred were £89k (2015: £114k) all of which have been written off.

Employees

The company is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. Full consideration is given to application for employment from disabled persons, having regard to their particular aptitudes and abilities. The company has continued the employment wherever possible of any person who becomes disabled during their employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

The company has a policy of providing employees with financial and other information about the business and ensures that the suggestions and views of employees are taken into account. The company encourages open discussion on key business issues, policies and the working environment.

Report of the directors (continued)

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

AJ Brown
MP Dearnaley
LK Patterson
KA Powell
BN Tomlinson
IC Cruickshank (resigned 15 February 2016)
G Cuomo (resigned 1 February 2016)
SW Huntington (resigned 31 October 2016)

Directors' Indemnity

The directors of the company had the benefit of a qualifying indemnity provision throughout the financial year ended 31 March 2016 and is currently in force.

Disclosure of information to auditors

The directors confirm that:

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

Independent auditors

PricewaterhouseCoopers LLP resigned as auditor on 13 April 2016 and KPMG LLP were appointed to the casual vacancy arising. KPMG LLP have expressed their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

B N Tomlinson
Director
30 November 2016

Statement of directors' responsibilities

Statement of directors' responsibilities in respect of the Strategic Report, the Report of the Directors and the financial statements

The directors are responsible for preparing the Strategic Report, Report of the Directors 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 Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* .

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of HR Wallingford Limited

We have audited the financial statements of HR Wallingford Limited for the year ended 31 March 2016 set out on pages 10 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 March 2016 and of its profit for the year then ended,
- have been properly prepared in accordance with UK 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of HR Wallingford Limited (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

Derek McAllan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

Date: 30 November 2016

Income statement

	Note	2016 £000	2015 £000
Turnover	1	**22,027**	24,744
Other operating charges	2	**(20,785)**	(25,615)
Other operating income	3	**2,217**	2,136
Gain on revaluation of investment properties		**45**	128
Gain on disposal of investment	4	**525**	-
Operating profit	4	**4,029**	1,393
Gift Aid payment to parent company	9	**(205)**	(134)
		3,824	1,259
Other interest receivable and similar income		**-**	36
Net gain on financial liabilities at fair value through profit and loss		**58**	12
Interest payable and similar charges	7	**(189)**	(210)
Net pension interest expense	8	**(88)**	(31)
Profit on ordinary activities before taxation		**3,605**	1,066
Tax on profit on ordinary activities	9	**(639)**	-
Retained profit for the financial year		**2,966**	1,066

All of the activities of the company are classed as continuing.

Statement of comprehensive income

	Note	**2016** £000	2015 £000
Profit for the financial year		**2,966**	1,066
Remeasurement loss in respect of defined benefit pension scheme	16	**(998)**	(2,344)
Total other comprehensive (loss)		**(998)**	(2,344)
Total comprehensive income/(loss) for the year		**1,968**	(1,278)

Statement of financial position

	Note	2016 £000	2015 £000
Fixed assets			
Property, plant and equipment	10	**24,942**	25,440
Investments	11	**330**	680
		25,272	26,120
Current assets			
Debtors	12	**10,084**	9,392
Cash at bank and in hand	13	**2,807**	1,479
		12,891	10,871
Creditors: amounts falling due within one year	14	**(5,421)**	(4,217)
Net current assets		**7,470**	6,654
Total assets less current liabilities		**32,742**	32,774
Creditors: amounts falling due after more than one year	15	**(1,825)**	(4,411)
Net assets excluding pension deficit		**30,917**	28,363
Provisions for liabilities:			
Pension deficit	16	**(3,418)**	(2,832)
Net assets including pension deficit		**27,499**	25,531
Capital and reserves			
Called-up share capital	19	**500**	500
Share premium account	20	**5,573**	5,573
Profit and loss account	21	**21,426**	19,458
Total shareholders' funds		**27,499**	25,531

These financial statements on pages 10 to 33 were approved by the directors and authorised for issue on 30 November 2016 and are signed on their behalf by:

B N Tomlinson
Director

Company number 02562099

Statement of changes in equity

	Called up share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 April 2014	500	5,573	20,736	26,809
Profit for the year	-	-	1,066	1,066
Other comprehensive income	-	-	(2,344)	(2,344)
Total comprehensive income for the year	-	-	(1,278)	(1,278)
At 31 March 2015	**500**	**5,573**	**19,458**	**25,531**
Profit for the year	-	-	2,966	2,966
Other comprehensive income	-	-	(998)	(998)
Total comprehensive income for the year	-	-	1,968	1,968
At 31 March 2016	**500**	**5,573**	**21,426**	**27,499**

Principal accounting policies

Statement of compliance

HR Wallingford Limited is a limited liability company incorporated in England. The Registered Office is Howbery Park, Wallingford, Oxfordshire OX10 8BA.

The Company's financial statements have been prepared in compliance with Financial Reporting Standard 102 ('FRS 102') as it applies to the financial statements for the year ended 31 March 2016. The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014. An explanation of how the transition has affected the reported financial position and financial performance is given in note 25.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention modified to include certain items at fair value, and in accordance with the FRS 102 and the Companies Act 2006.

The financial statements are prepared in pounds sterling which is the Company's functional currency and rounded to the nearest £000.

The principal accounting policies of the company are set out below.

Cash flow statement

The Company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions available to it in respect of the presentation of a cash flow statement.

Consolidation

The company is a wholly owned subsidiary of HR Wallingford Group Limited, a company incorporated in the United Kingdom and, in accordance with section 400 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts. Therefore these financial statements contain information about the Company as an individual entity, and not about its group.

Turnover and revenue recognition

Turnover is recognised as earned when, and to the extent that, the company obtains the right to consideration, which represents amounts chargeable to clients, including expenses and disbursements but excluding VAT.

Revenue is generally recognised as contract activity progresses so that for incomplete contracts it reflects the partial performance of the contractual obligations whilst allowing for uncertainty of costs to completion. For such contracts the amount of revenue reflects the accrual of the right to consideration by reference to the value of the work performed less any identified future cost overruns. Longer term equipment supply revenue is recognised by reference to clear delivery stages. Data sales income is recognised at the commencement of the licence term.

Revenue not billed to clients is included in debtors as accrued income. Rental income and services charges are recognised equally over the rental period. Income from catering services is recognised as and when the service is performed.

Principal accounting policies (continued)

Research and development

Research and development expenditure is written off as incurred, except that development expenditure relating to specific projects intended for commercial exploitation is capitalised and amortised over the periods expected to benefit from it, commencing with the period in which related sales are first made. Development expenditure incurred on an individual project is capitalised as an intangible asset when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Investments

Fixed asset investments in subsidiaries are included at cost less amounts written off.

Tangible fixed assets

Fixed assets are initially included at cost.

The cost of self-constructed tangible fixed assets comprises the direct cost of materials, direct manufacturing expenses, and appropriate allocations of material and manufacturing overheads. If the construction phase of tangible fixed assets extends over a long period the interest incurred on borrowed capital up to the date of completion is capitalised as a part of the cost of construction.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold property	-	8-50 years straight line
Plant & machinery	-	3-10 years straight line
Fixtures & fittings	-	3-20 years straight line
Computer equipment	-	3-10 years straight line

No depreciation is charged on assets during the course of construction.

Investment properties

Certain of the Company's properties are held for long-term investment. Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure. Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised in the profit and loss account accumulated in the profit and loss reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Principal accounting policies (continued)

Pension costs and other post-retirement benefits

The HR Wallingford Group Limited group operates a group personal pension plan in the UK for eligible employees and benefits are based on each individual member's personal account. The plan is operated by an insurance company. Pension costs of the group's personal pension plan are charged to the profit and loss account as incurred.

The company is a participating employer in the HR Wallingford Group Limited funded defined benefit pension scheme which was closed to future accrual of benefits at 31 March 2014. The funds and liabilities of the defined benefit scheme are valued every three years by a professionally qualified independent actuary. The last actuarial valuation of the scheme took place as at 31 March 2013 and the results of the actual valuation at 31 March 2016 have not yet been finalised. In the intervening years the actuary reviews the continuing appropriateness of the rates. The assets of the scheme are held separately from those of the Group by trustees. Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using a discount rate that is equivalent to the AA corporate bond. Pension scheme assets are valued at market value at the balance sheet date. The pension scheme deficit is recognised in full on the balance sheet.

Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of other comprehensive income.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Basic financial instruments

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

Principal accounting policies (continued)

Financial instruments (continued)

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments (including derivatives) are measured at fair value with changes recognised in profit or loss.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Derivative instruments

The company uses interest rate swaps to manage interest rate exposures. Interest differentials are recognised by accruing inclusive of net interest payable. Interest rate swaps are revalued to fair value and shown on the Company's balance sheet at the year end. The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted

Holiday pay accrual

The Company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Bank loans

Bank loans which are basic financial instruments are initially recorded at the present value of future payments discounted at a market rate of interest for a similar loan. Subsequently, they are measured at amortised costs using the effective interest method.

Accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Principal accounting policies (continued)

Accounting judgements and key sources of estimation uncertainty (continued)

The following are the Company's key sources of estimation uncertainty:

Operating lease commitments

The Company has entered into commercial property leases as a lessor on its investment property portfolio. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

Revenue recognition

The Company recognises revenue from the provision of services other than catering services as contract activity progresses. In making its judgement as to the value of work performed, and the estimate of costs to complete the contract (including any foreseeable cost overruns), management consider that while there is a degree of judgement in determining these factors, there is sufficient certainty to ensure that the Company meets the requirements of FRS 102 in relation to revenue recognition.

Revaluation of investment properties

The Group carries its investment property at fair value, with changes in fair value being recognised in profit or loss. The Group engaged independent valuation specialists to determine fair value at 31 March 2016 and at the beginning and end of the comparative period.

The valuer has used the investment method of valuation. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 10.

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 16.

Allowance for doubtful debts

Management undertakes a review of all new customers and a periodic review of existing customers to determine whether specific risks of default exist. Beyond identification of specific risks, management undertakes periodic reviews into the calculation of allowances for doubtful debts to ensure historic trends continue to provide a basis for determining a reliable estimate for doubtful debts.

Principal accounting policies (continued)

Accounting judgements and key sources of estimation uncertainty (continued)

Determining residual values and useful economic lives of property, plant and equipment

The Company depreciates tangible assets over their estimated useful lives. The estimation of the useful lives of the asset is based on historic performance as well as expectations of future use and therefore requires estimates and assumptions to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes. Judgement is applied by management when determining the residual values for plant, machinery and equipment. When determining the residual value management aim to assess the amount that the company would currently obtain for the disposal of the asset, if it were already of the condition expected at the end of its useful economic life. Where possible this is done with reference to external market price.

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the principal activity of the company. An analysis of turnover is given below:

	2016	2015
	£000	£000
United Kingdom	**14,454**	10,685
Overseas	**7,573**	14,059
	22,027	24,744

2 Other operating charges

	2016	2015
	£000	£000
Raw materials and consumables	**3,666**	5,688
Other external charges	**298**	546
Staff costs	**13,209**	14,607
Depreciation	**926**	1,104
Other operating charges	**2,686**	3,670
	20,785	25,615

3 Other operating income

	2016	2015
	£000	£000
Rent receivable and catering income	**2,217**	2,136

4 Operating profit

Operating profit is stated after charging / (crediting):

	2016	2015
	£000	£000
Amortisation of government grants	**-**	(54)
Research and development expenditure written off	**89**	114
Depreciation of owned fixed assets	**926**	1,104
Foreign exchange gain	**(235)**	(192)
Services provided by the Company's auditor:		
Fees payable for the audit	**38**	26
Fees payable – actuarial services	**-**	4

Fees paid to the company's auditor for services other than the statutory audit of the company are not disclosed in the company's financial statements since the consolidated financial statements of the parent, HR Wallingford Group Limited, are required to disclose non-audit fees on a consolidated basis.

Fees for actuarial services in 2015 were paid to PricewaterhouseCoopers LLP, the Company's auditors in that year.

Notes to the financial statements (continued)

4 Operating profit (continued)

	2016	2015
	£000	£000
Gain on disposal of investment	**525**	-

During the year the investment in Howbery Solar Park Limited was sold and a gain made on the disposal.

5 Particulars of employees

The average monthly number of staff employed by the company during the financial year amounted to:

	2016	2015
	Number	Number
Number of technical staff	**219**	236
Number of administration staff	**33**	14
	252	250

The aggregate payroll costs of the above were:

	2016	2015
	£000	£000
Wages and salaries	**10,791**	11,996
Social security costs	**1,131**	1,197
Other pension costs	**1,287**	1,414
	13,209	14,607

Other pension costs are amounts charged to operating profit and do not include amounts recognised as finance charges (see note 8) and amounts recognised in the statement of recognised gains and losses.

6 Directors

Remuneration in respect of directors was as follows:

	2016	2015
	£000	£000
Emoluments	**839**	1,140
Pension contributions to defined contribution pension plan	**104**	124
	943	1,264

Emoluments of highest paid director:	**2016**	2015
	£000	£000
Emoluments	**185**	159
Pension contributions to defined benefit contribution plan	**25**	16
	210	175

Key management personnel
There are no key management personnel other than the directors of the Company, the remuneration of whom is disclosed above.

Notes to the financial statements (continued)

6 Directors (continued)

The number of directors who participated in the defined contribution pension plan was as follows:

	2016 No	2015 No
Defined contribution plan	**5**	4

7 Interest payable and similar charges

	2016 £000	2015 £000
Interest payable on bank borrowing	**189**	189
Other similar charges payable	**-**	21
	189	210

8 Net pension interest expense

	2016 £000	2015 £000
Finance charge on defined benefit pension scheme (see note 16)	**88**	31

9 Tax on profits on ordinary activities

	2016 £000	2015 £000
Current tax on income for the year		
UK Corporation tax	**378**	-
	378	-
Adjustments in respect of prior years:		
UK Corporation tax	**261**	-
Total current tax	**639**	-

Profits chargeable to corporation tax are reduced as a result of payments made under Gift Aid to the parent company under Section 469 of the Corporation Taxes Act 2010. The Gift Aid amount due on this basis for the present year has been calculated to be a charge to the income statement of £205,000 (2015: £134,000).

The Company is in receipt of grants from the government under the R&D Expenditure Credits ('RDEC') scheme, and amounts receivable for the current and prior years totalling £1,157,000 have been credited to other operating charges in the income statement.

Notes to the financial statements (continued)

9 Tax on profits on ordinary activities (continued)

Reconciliation of effective tax rate

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2016	2015
	£000	£000
Profit before tax	**3,605**	1,066
Tax on profit at standard UK corporation tax rate of 20% (2015: 21%)	**721**	224
Effects of:		
Fixed asset differences	**117**	149
Expenses not deductible for tax purposes	**58**	-
Income not deductible for tax purposes	**(205)**	(231)
Additional deduction for R&D tax expenditure	**(30)**	(148)
Additional deduction for land remediation expenditure	**-**	(2)
R&D expenditure credits	**(104)**	-
Chargeable gains	**90**	-
Adjustments to tax charge in respect of previous periods	**209**	-
Adjustment of closing deferred tax rate	**(168)**	-
Deferred tax not recognised	**(49)**	(113)
Pension scheme interest expense in other comprehensive income	**-**	121
Total tax charge for the period	**639**	-

Notes to the financial statements (continued)

10 Property, plant and equipment

	Investment property £000	Freehold property £000	Plant & machinery £000	Fixtures & fittings £000	Computer equipment £000	Total £000
Cost or valuation						
At 1 April 2015	8,950	19,981	3,622	725	1,765	35,043
Additions	-	-	99	-	284	383
Revaluation	45	-	-	-	-	45
At 31 March 2016	**8,995**	**19,981**	**3,721**	**725**	**2,049**	**35,471**
Depreciation						
At 1 April 2015	-	5,886	2,079	267	1,371	9,603
Charge for the year	-	346	326	63	191	926
At 31 March 2016	**-**	**6,232**	**2,405**	**330**	**1,562**	**10,529**
Net book value						
At 31 March 2016	**8,995**	**13,749**	**1,316**	**395**	**487**	**24,942**
At 31 March 2015	8,950	14,095	1,543	458	394	25,440

Investment properties were revalued on 31 March 2016 by Strutt & Parker, Chartered Surveyors. The basis of the valuation was fair value, in accordance with The Royal Institution of Chartered Surveyors Valuation Professional Standards 2014 and the relevant provisions of FRS 102. The surplus on revaluation has been recognised in the Income Statement.

The investment method of valuation has been adopted by the valuers, whereby the rental income stream is capitalised at appropriate capitalisation rates based on current comparable investment transactions and an understanding of the office and wider commercial investment market in the UK as at the balance sheet date.

If these fixed assets had not been revalued, they would have been included on the historical cost basis at the following amounts:

	Investment property £000
Cost	6,597
Accumulated depreciation	(2,155)
Carrying value at 31 March 2016 on historical cost basis	**4,442**

Notes to the financial statements (continued)

11 Investments

Shares in subsidiary undertakings and minority holdings	£000
Cost and net book value	
At 1 April 2015	**680**
Sale of investment in Howbery Solar Park Limited	**(350)**
At 31 March 2016	**330**

During the year the Company sold its investment in Howbery Solar Park Limited.

At the year end the Company had the following active, directly held subsidiaries:

	Country of incorporation	Proportion of ordinary shares held	Result for the year ended 31 March 2016 £000	Net assets/ (liabilities) at 31 March 2016 £000
HR Wallingford India Pvt Ltd	India	100%	9	22
HR Wallingford Inc	USA	100%	(96)	(137)
HR Wallingford Pty Ltd	Australia	100%	(242)	(14)
HR Wallingford Asia Sdn.Bhd.	Malaysia	100%	60	239
HRW Hydraulic Environment Technology Consulting (Shanghai) Ltd	China	100%	41	(70)
HR Wallingford LLC	UAE	100%	-	-

The directors believe that the carrying value of the investments is supported by their underlying net assets.

12 Debtors

	2016 £000	2015 £000
Trade debtors	**5,106**	4,682
Amounts owed by group undertakings	**-**	585
Corporation tax recoverable	**518**	-
Other debtors	**43**	4
Prepayments and accrued income	**4,417**	4,121
	10,084	9,392

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

13 Cash at bank and in hand

	2016 £000	2015 £000
Cash at bank and in hand	**2,807**	1,479

Notes to the financial statements (continued)

14 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank loans	**491**	518
Trade creditors	**720**	720
Derivative financial instruments (note 23)	**242**	300
Amounts owed to group undertakings	**-**	136
Taxation and social security	**578**	630
Other creditors	**18**	13
Accruals and deferred income	**3,372**	1,900
	5,421	4,217

15 Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Bank loans	**1,825**	2,444
Amounts owed to group undertakings	**-**	1,967
	1,825	4,411

The bank loans are secured on the fixed assets which they have financed. The company has entered into an interest rate swap whereby it swapped an interest rate of LIBOR plus 1.1% on the bank loan for a fixed interest rate of 5.38%. The amounts owed to group undertakings are repayable in more than one year. Interest is payable at base rate plus 0.5%.

16 Pension commitments

Defined contribution scheme
The cost of the group personal pension plan for the year was £1,287,000 (2015: £1,414,000).

Defined benefit plan
The company's parent undertaking, HR Wallingford Group Ltd, operates the Hydraulic Research Pension Scheme (Scheme), a defined benefit pension scheme on behalf of the Group. The Scheme was closed to future accrual from 31 March 2014.

The directors have assessed the allocation of the underlying assets and liabilities of the Scheme between the participating employers and consider that the underlying assets and liabilities are applicable to the Company.

Notes to the financial statements (continued)

16 Pension commitments (continued)

An analysis of the Scheme's financial position was carried out as at 31 March 2016 by a qualified independent actuary. The analysis was based on the full actuarial valuation as at 31 March 2013 and was updated by the actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the Scheme at 31 March 2016 and 31 March 2015. The Company has agreed to pay annually further deficit recovery payments of £500,000. In addition, the company paid scheme administration expenses of £198,000.

The principal assumptions used by the actuary were:

Assumptions at 31 March	**2016**	2015
Interest rate for discounting liabilities	**3.6%**	3.4%
Retail Price Index	**3.1%**	3.1%
Consumer Price Index	**2.1%**	2.1%
Pension increases pre April 1997	**2.1%**	2.1%
Pension increases post April 1997	**2.1%**	2.1%
Mortality:	**SAPS**	SAPS
Current and future pensioners	**CMI2012**	CMI2012
	1.5% underpin	1.5% underpin

The amounts recognised in the balance sheet are as follows	**2016**	2015
	£000	£000
Fair value of plan assets	**81,542**	86,441
Present value of defined benefit obligation	**(84,960)**	(89,273)
Deficit and liability	**(3,418)**	(2,832)

Pension cost recognised in the income statement for the year ended 31 March	**2016**	2015
	£000	£000
Finance cost		
Interest cost	**2,979**	3,366
Interest income	**(2,891)**	(3,335)
Subtotal for finance cost (note 8)	**88**	31
Total pension cost	**88**	31

Notes to the financial statements (continued)

16 Pension commitments (continued)

Taken to other comprehensive income for the year ended 31 March	2016 £000	2015 £000
Experience gains on liabilities	-	2
Actuarial losses on liabilities due to assumptions	3,953	(10,877)
Experience gains on assets	(4,951)	8,531
Total actuarial loss	(998)	(2,344)

Changes in the present value of the defined benefit obligations are analysed as follows:	2016 £000	2015 £000
Present value of Scheme liabilities at start of year	89,273	77,981
Interest cost	2,979	3,366
Actuarial (loss)/gain	(3,953)	10,875
Benefits and expenses paid	(3,339)	(2,949)
Present value of Scheme liabilities at end of year	84,960	89,273

Reconciliation of Scheme assets	2016 £000	2015 £000
Value of Scheme assets at the start of the year	86,441	77,024
Expected return on Scheme assets	2,891	3,335
Actuarial gain/(loss)	(4,951)	8,531
Employer contributions	500	500
Benefits and expenses paid	(3,339)	(2,949)
Value of Scheme assets at the end of the year	81,542	86,441
Actual return on assets over the year	(2,060)	11,866

Asset categories as at 31 March	2016 £000	2015 £000
Equities	45,323	51,542
Bonds	35,582	34,237
Other	637	662
Total	81,542	86,441

Notes to the financial statements (continued)

17 Contingent liabilities

Under HM Revenue & Customs regulations the parent company, HR Wallingford Group Limited has Scientific Research Association status under Section 469 of the Corporation Taxes Act 2010. The company benefits from corporation tax exemption by making gift aid payments to the exempt parent company. An annual retrospective self-assessment return to HM Revenue & Customs is required to confirm tax exempt status.

18 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under FRS 102 Section 33.

19 Called up share capital

Allotted, called up and fully paid:

	2016		2015	
	Number	**£000**	Number	£000
Ordinary shares of £1 each	**500,000**	**500**	500,000	500

20 Share premium account

This reserve records the amount above the nominal value received for shares issued, less transaction costs. There was no movement on the share premium account during the current and prior financial year and the balance at 31 March 2016 was £5,573,000 (2015: £5,573,000).

Notes to the financial statements (continued)

21 Profit and loss account

	2016 £000	2015 £000
Balance brought forward	**19,458**	20,736
Profit for the financial year	**2,966**	1,066
Remeasurement loss in respect of defined benefit pension scheme	**(998)**	(2,344)
Balance carried forward	**21,426**	19,458

22 Operating leases as lessor

The Company owns a number of investment properties which are let to third parties. These non-cancellable operating leases have remaining terms of between one and nine years. All leases include a provision for periodic rent reviews according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2016 £000	2015 £000
Not later than one year	**1,033**	980
After one year but not more than five years	**2,366**	3,125
After five years	**91**	141
	3,490	4,246

Notes to the financial statements (continued)

23 Financial instruments

	2016 £000	2015 £000
Financial assets measured at undiscounted amount receivable:		
Trade and other debtors (excluding prepayments)	**9,887**	9,185
Equity instruments measured at cost less impairment:		
Investments in subsidiaries	**330**	680
Financial liabilities at fair value through profit or loss:		
Interest rate swaps	**(242)**	(300)
Financial liabilities measured at amortised cost:		
Bank loans	**2,316**	2,962
Financial liabilities measured at undiscounted amount payable:		
Trade and other creditors (excluding deferred revenue)	**(4,774)**	(7,284)

The Company has in place an interest rate swap to help manage the risk of interest rate volatility. The fair value of the liability held at fair value through profit or loss has been calculated by discounting the expected future cash flows at prevailing interest rates.

24 Ultimate parent company

The directors consider that the ultimate parent undertaking of this company is HR Wallingford Group Limited, a company registered in England and Wales. The smallest and largest group of undertakings for which group financial statements have been drawn up is that headed by HR Wallingford Group Limited. Copies of the group financial statements can be obtained from the company's registered office from The Secretary, HR Wallingford Group Limited, Howbery Park, Wallingford, OX10 8BA.

Notes to the financial statements (continued)

25 Transition to FRS 102

The Company has transitioned to FRS 102 from previously extant UK GAAP as at 1 April 2014. The impact of the transition to FRS 102 is set out below.

Reconciliation of equity at 1 April 2014

	£000
Equity shareholders' funds at 1 April 2014 under previous UK GAAP	27,286
Holiday pay accrual	(191)
Recognition of interest rate swap derivative	(312)
Recognition of bank loans at amortised cost	26
Equity shareholders' funds at 1 April 2014 under FRS 102	26,809

Reconciliation of equity at 31 March 2015

	£000
Equity shareholders' funds at 31 March 2015 under previous UK GAAP	26,065
Holiday pay accrual	(236)
Recognition of interest rate swap derivative	(300)
Measurement of bank loans at amortised cost	2
Equity shareholders' funds at 31 March 2015 under FRS 102	25,531

The following were changes in accounting policies arising from the transition to FRS 102:

Holiday pay accrual
Under previous UK GAAP, the Company did not accrue for holiday pay that was earned but where the holiday entitlement was expected to be taken in the subsequent financial year. Under FRS 102, the Company is required to accrue for all short-term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position. The impact is to recognise a holiday pay accrual of £191,000 at 1 April 2014 and £236,000 at 31 March 2015 respectively.

Derivatives
Interest rate swaps are recognised at fair value in the statement of financial position and are accounted for at fair value through profit or loss. Under previous UK GAAP these were not revalued to fair value or shown in the balance sheet.

Bank loans
Under FRS 102 the Company records bank loans at amortised cost using the effective interest method. Previously, these had been recorded at transaction value less capital repayments.

Defined benefit pension schemes
There is a presentational change under FRS 102 whereby net interest on the net defined benefit pension liability is presented in the income statement using the liability discount rate. Under previous UK GAAP the interest on the expected return on net assets was calculated using an expected asset return discount rate. This had no impact on shareholders' equity on transition but affects the allocation of interest between the income statement and other comprehensive income.

Notes to the financial statements (continued)

25 Transition to FRS 102 (continued)

Reconciliation of profit and loss for the year ended 31 March 2015

	£000
Profit for the year ended 31 March 2015 under previous UK GAAP	1,573
Holiday pay accrual	(45)
Movement in fair value of derivatives	12
Measurement of bank loans at amortised cost	(24)
Gain on revaluation of investment properties	128
Net interest adjustment on pension scheme	(578)
Profit for the year ended 31 March 2015 under FRS 102	1,066

Reconciliation of total comprehensive income for the year ended 31 March 2015

	£000
Total recognised losses for the year ended 31 March 2015 under previous UK GAAP	(1,221)
Holiday pay accrual	(45)
Movement in fair value of derivatives	12
Measurement of bank loans at amortised cost	(24)
Total comprehensive loss for the year ended 31 March 2015 under FRS 102	(1,278)

The following were changes in accounting policies arising from the transition to FRS 102:

Holiday pay accrual
As a result of the requirement to accrue for all short-term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position, there is a charge of £45,000 to the income statement for the year ended 31 March 2015, reflecting the net increase in the holiday pay accrual during the year.

Movement in fair value of derivatives
Interest rate swaps are recognised at fair value in the statement of financial position and are accounted for at fair value through profit or loss. Under previous UK GAAP the fair value of the derivative was disclosed in the financial statements but not recognised in the balance sheet or profit and loss.

Bank loans
Under FRS 102 the Company records bank loans at amortised cost using the effective interest method. Previously, these had been recorded at transaction value less capital repayments.

Investment properties
Under FRS 102, changes in the fair value of investment properties are recorded in the profit and loss account. Under previous UK GAAP these changes were recorded in the Statement of Total Recognised Gains and Losses.

Adjustment to net interest on net defined pension liability
Under previous UK GAAP, the interest on the expected return on plan assets was calculated using an expected asset rate. FRS 102 requires that the net interest on the net defined benefit liability is calculated using the liability discount rate for the scheme. As such there was an increase in profit arising from this adjustment which was offset by a corresponding increase in other comprehensive income.

Notes to the financial statements (continued)

25 Transition to FRS 102 (continued)

Transitional relief
On transition to FRS 102 from previous UK GAAP, the Company has taken advantage of transitional relief as follows:

Investments in subsidiaries
The company has elected to treat the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.