HR Wallingford Limited

Annual Report and Financial Statements
For the year ended 31 March 2017

Company No. 02562099

Company information

Company registration number	02562099
Registered office	Howbery Park Wallingford Oxfordshire OX10 8BA
Directors	AJ Brown MP Dearnaley GD Leeming 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 2017.

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 17. 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 taken 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, the UK government has committed to underwrite bids for Horizon 2020 projects submitted whilst the UK is still a member of the European Union and are seeking to establish agreement for research funding 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 will, where appropriate, hedge interest rates to manage risk. At 31 March 2017 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 2017 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 rose marginally in the financial year by £481k showing some recovery on the prior year business levels. Operating profit decreased due to an increase in other operating expenses and the non-repeat of the disposal gain – these impacts were partially offset by the gain in revaluation of the Company's investment property. The Company continued to undertake research on behalf of the Group into new areas of hydraulic engineering. Capital expenditure investments continue to be made by the Company to support all lines of business and cash balances remain at an appropriate level. 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 and research; both for general dissemination and as a source of competitive advantage and cash generation. The directors monitor progress; adjusting future objectives annually in line with current circumstances.

By order of the Board

B N Tomlinson
Director
3 October 2017

Report of the directors

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

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 (2016: £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.

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.

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
GD Leeming (appointed 27 July 2017)
KA Powell
BN Tomlinson

SW Huntington (resigned 31 October 2016)
LK Patterson (resigned 30 March 2017)

Directors' Indemnity

The directors of the Company had the benefit of a qualifying indemnity provision throughout the financial year ended 31 March 2017 and the provision is currently in force.

Report of the directors (continued)

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

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
3 October 2017
Howbery Park
Wallingford
Oxfordshire
OX10 8BA

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, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK 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 December 2017 set out on pages 10 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), 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 2017 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 matters 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 is consistent with the financial statements.

- Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:
- we have not identified material misstatements in those reports and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006..

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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

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

3 October 2017

Income statement

	Note	2017	2016
		£000	£000
Turnover	1	**22,508**	22,027
Other operating expenses	2	**(23,987)**	(20,785)
Other operating income	3	**2,450**	2,217
Gain on revaluation of investment properties		**1,737**	45
Gain on disposal of investment	4	**-**	525
Operating profit	4	**2,708**	4,029
Gift Aid payment to parent company	9	**(613)**	(205)
		2,095	3,824
Net gain on financial liabilities at fair value through profit and loss		**81**	58
Net interest payable	7	**(106)**	(189)
Net pension interest expense	8	**(114)**	(88)
Profit before taxation		**1,956**	3,605
Tax on profit	9	**29**	(639)
Retained profit for the financial year		**1,985**	2,966

The notes on pages 14-30 form an integral part of the financial statements.

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

Statement of comprehensive income

	Note	**2017**	2016
		£000	£000
Profit for the financial year		**1,985**	2,966
Remeasurement loss in respect of defined benefit pension scheme	17	**(5,073)**	(998)
Total other comprehensive loss		**(5,073)**	(998)
Total comprehensive (loss)/income for the year		**(3,088)**	1,968

The notes on pages 14-30 form an integral part of the financial statements.

Statement of financial position

	Note	2017 £000	2016 £000
Fixed assets			
Property, plant and equipment	10	**26,187**	24,942
Investments	11	**330**	330
		26,517	25,272
Current assets			
Stocks	12	**422**	-
Debtors	13	**9,493**	10,084
Cash at bank and in hand	14	**2,465**	2,807
		12,380	12,891
Creditors: amounts falling due within one year	15	**(4,783)**	(5,421)
Net current assets		**7,597**	7,470
Total assets less current liabilities		**34,114**	32,742
Creditors: amounts falling due after more than one year	16	**(1,598)**	(1,825)
Net assets excluding pension deficit		**32,516**	30,917
Provisions for liabilities:			
Pension deficit	17	**(8,105)**	(3,418)
Net assets including pension deficit		**24,411**	27,499
Capital and reserves			
Called-up share capital	20	**500**	500
Share premium account	21	**5,573**	5,573
Profit and loss account		**18,338**	21,426
Total shareholders' funds		**24,411**	27,499

The notes on pages 14-30 form an integral part of the financial statements. These financial statements on pages 10 to 30 were approved by the directors and authorised for issue on 3 October 2017 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 2015	500	5,573	19,458	25,531
Profit for the year	-	-	2,966	2,966
Re-measurement loss	-	-	(998)	(998)
Total comprehensive income for the year	-	-	1,968	1,968
At 31 March 2016	**500**	**5,573**	**21,426**	**27,499**
Profit for the year	-	-	1,985	1,985
Re-measurement loss	-	-	(5,073)	(5,073)
Total comprehensive loss for the year	-	-	(3,088)	(3,088)
At 31 March 2017	**500**	**5,573**	**18,338**	**24,411**

The notes on pages 14-30 form an integral part of the financial statements.

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.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in September 2015.

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 £1,000.

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. Subsequent to recognition, investment properties whose fair value can be measured reliably are measured at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and no depreciation is provided in respect of investment properties applying the fair value model.

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 2016. 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 financial 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.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

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.

Principal accounting policies (continued)

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.

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 2017 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.

Principal accounting policies (continued)

Accounting judgements and key sources of estimation uncertainty (continued)

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.

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:

	2017 £000	2016 £000
United Kingdom	11,449	14,454
Overseas	11,059	7,573
	22,508	22,027

2 Other operating expenses

	2017 £000	2016 £000
Raw materials and consumables	5,166	3,666
Staff costs	13,378	13,209
Depreciation	902	926
Other operating expenses	4,541	2,984
	23,987	20,785

3 Other operating income

	2017 £000	2016 £000
Rent receivable and catering income	2,450	2,217

4 Operating profit

Operating profit is stated after charging / (crediting):

	2017 £000	2016 £000
Research and development expenditure written off	25	89
Depreciation of owned fixed assets	903	926
Foreign exchange gain	(443)	(235)
Services provided by the Company's auditor:		
Fees payable for the audit	38	38

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.

Notes to the financial statements (continued)

4 Operating profit (continued)

	2017 £000	2016 £000
Gain on disposal of investment	-	525

5 Particulars of employees

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

	2017 Number	2016 Number
Number of technical staff	241	241
Number of administration staff	10	11
	251	252

The aggregate payroll costs of the above were:

	2017 £000	2016 £000
Wages and salaries	11,011	10,791
Social security costs	1,096	1,131
Other pension costs	1,271	1,287
	13,378	13,209

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 comprehensive income.

6 Directors

Remuneration in respect of directors was as follows:

	2017 £000	2016 £000
Emoluments	649	839
Pension contributions to defined contribution pension plan	89	104
	738	943

Emoluments of highest paid director:	2017 £000	2016 £000
Emoluments	185	185
Pension contributions to defined benefit contribution plan	25	25
	210	210

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:

	2017 No.	2016 No.
Defined contribution plan	**5**	7

7 Net interest payable

	2017 £000	2016 £000
Interest receivable on amounts owed by group undertakings	**32**	-
Interest payable on bank borrowing	**(138)**	(189)
	(106)	(189)

8 Net pension interest expense

	2017 £000	2016 £000
Finance charge on defined benefit pension scheme (see note 17)	**114**	88

9 Tax on profit

	2017 £000	2016 £000
Current tax on income for the year		
UK corporation tax	**72**	378
	72	378
Adjustments in respect of prior years:		
UK corporation tax	**(101)**	261
Total current tax	**29**	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 £320,000 and a further amount of £293k was charged in respect of the prior year (2016: £205,000).

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 £358,000 have been credited to other operating expenses in the income statement.

Notes to the financial statements (continued)

9 Tax on profits (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:

	2017	2016
	£000	£000
Profit before tax	**1,956**	3,605
Tax on profit at standard UK corporation tax rate of 20% (2016: 20%)	**391**	721
Effects of:		
Fixed asset differences	**87**	117
Expenses not deductible for tax purposes	**33**	58
Income not taxable for tax purposes	**(447)**	(205)
Additional deduction for R&D tax expenditure	**(11)**	(30)
R&D expenditure credits	**-**	(104)
Chargeable gains	**234**	90
Adjustments to tax charge in respect of previous periods	**(101)**	209
Adjustment of closing deferred tax rate	**-**	(168)
Deferred tax not recognised	**(215)**	(49)
Total tax charge for the period	**(29)**	639

The budget on 8 July 2015 announced changes in the main UK corporation tax rate. The rate will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The reduction in tax rates was included in the 2015-2016 Finance Act which was substantially enacted for the purposes of UK GAAP (i.e. having completed the Commons stages) on 26 October 2015. The budget on 15 March 2016 announced further changes in the main UK corporation tax rate. The effective rate of 18% from 1 April 2020 was to be further reduced to 17%. This further reduction in tax rates was included in the 2016 Finance Act which was substantially enacted on 6 September 2016.

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 2016	8,995	19,981	3,721	725	2,049	35,471
Additions	68	10	178	28	128	412
Disposals	-	(196)	(683)	(53)	(1,107)	(2,039)
Revaluation	1,737	-	-	-	-	1,737
At 31 March 2017	**10,800**	**19,795**	**3,216**	**700**	**1,070**	**35,581**
Depreciation						
At 1 April 2016	-	6,232	2,405	330	1,562	10,529
Charge for the year		378	282	46	198	904
Disposals	-	(196)	(683)	(53)	(1,107)	(2,039)
At 31 March 2017	**-**	**6,414**	**2,004**	**323**	**653**	**9,394**
Net book value						
At 31 March 2017	**10,800**	**13,381**	**1,212**	**377**	**417**	**26,187**
At 31 March 2016	8,995	13,749	1,316	395	487	24,942

Investment properties were revalued on 31 March 2017 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	6,665
Accumulated depreciation	(2,318)
Carrying value at 31 March 2017 on historical cost basis	**4,347**

Notes to the financial statements (continued)

11 Investments

Shares in subsidiary undertakings	**£000**
Cost and net book value	
At 31 March 2017 and at 1 April 2016	**330**

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 2017 £000**	**Net assets/ (liabilities) at 31 March 2017 £000**
HR Wallingford India Pvt Ltd	India	100%	6	29
HR Wallingford Inc	USA	100%	181	24
HR Wallingford Pty Ltd	Australia	100%	(47)	(64)
HR Wallingford Asia Sdn.Bhd.	Malaysia	100%	77	319
HRW Hydraulic Environment Technology Consulting (Shanghai) Ltd	China	100%	185	109
HR Wallingford LLC	UAE	100%	-	-

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

12 Stocks

	2017 £000	2016 £000
Finished goods	**422**	-

13 Debtors

	2017 £000	2016 £000
Trade debtors	**2,966**	5,106
Amounts owed by group undertakings	**1,853**	-
Corporation tax recoverable	**387**	518
Other debtors	**5**	43
Prepayments and accrued income	**4,282**	4,417
	9,493	10,084

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

Notes to the financial statements (continued)

14 Cash at bank and in hand

	2017 £000	2016 £000
Cash at bank and in hand	**2,465**	2,807

15 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Bank loans	**215**	491
Trade creditors	**494**	720
Derivative financial instruments (note 23)	**173**	242
Taxation and social security	**583**	578
Other creditors	**24**	18
Accruals and deferred income	**3,294**	3,372
	4,783	5,421

16 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Bank loans	**1,598**	1,825

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%.

Notes to the financial statements (continued)

17 Pension commitments

The Company operates a Group Personal Pension Plan, a defined contribution plan and the Hydraulic Research Pension Scheme, a defined benefit pension scheme.

Defined contribution plan
The cost of the Group Personal Pension Plan for the year was £1,271,000 (2016: £1,297,000).

Defined benefit scheme
The Scheme was closed to future accrual with effect from 31 March 2014. An analysis of the Hydraulic Research Pension Scheme's financial position was carried out as at 31 March 2017 by a qualified independent actuary. The analysis was based on the full actuarial valuation as at 31 March 2016 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 2017 and 31 March 2016. The Company has agreed to an arrangement with the Scheme's Trustees to pay contributions annually in order to help eliminate the deficit. The payment agreed for 2018 is £500,000.

The principal assumptions used by the actuary were:

Assumptions at 31 March	**2017**	2016
Interest rate for discounting liabilities	**2.65%**	3.6%
Retail Price Inflation	**3.45%**	3.1%
Consumer Price Inflation	**2.45%**	2.1%
Pension increases pre April 1997	**2.45%**	2.45%
Pension increases post April 1997	**2.45%**	2.45%
Mortality:		
Non-pensioner mortality	**SAPS S2 year of birth with future improvements in line with CMI 2015 1.25%**	SAPS S1 year of birth with future improvements in line with CMI 2012 1.5%
Pensioner mortality	**SAPS S2 year of birth with future improvements in line with CMI 2015 1.25%**	SAPS S1 year of birth with future improvements in line with CMI 2012 1.5%

The expected return on plan assets is a blended average of projected long-term returns for the various asset classes. Equity returns are developed based on the selection of an equity risk premium above the risk free rate, which is measured by reference to the yield on government bonds. Corporate bond returns are determined by reference to the long term yields available on high quality sterling corporate debt, measured by reference to an excess over the yield on government bonds.

The amounts recognised in the balance sheet are as follows:

	2017	2016
	£000	£000
Fair value of scheme assets	**92,194**	81,542
Present value of scheme Liabilities	**(100,299)**	(84,960)
Deficit	**(8,105)**	(3,418)

Notes to the financial statements (continued)

17 Pension commitments (continued)

Pension cost recognised in the income statement for the year ended 31 March	**2017**	2016
	£000	£000
Operating cost		
Administration expenses	456	326
Subtotal for operating cost	**456**	326
Interest cost	**3,014**	2,979
Interest income	**(2,900)**	(2,891)
Subtotal for finance cost	**114**	88
Total pension cost	**570**	414

	Assets	**Liabilities**	**Total**
	£000	**£000**	**£000**
At 1 April 2016	81,542	(84,960)	(3,418)
Benefits paid	(2,485)	2,485	-
Employer contributions	500	-	500
Interest income /(expenses)	2,900	(3,014)	(114)
Re-measurement gains /(losses)			
- Actuarial losses	-	(14,810)	(14,810)
- Return on plan assets excluding interest income	9,737	-	9,737
At 31 March 2017	**92,194**	**(100,299)**	**(8,105)**

The actual return on assets over the year was £12,637,000 (2016: £2,060,000 loss).

Asset categories as at 31 March	**2017**	2016
	£000	£000
Equities	**32,101**	45,323
Bonds	**59,484**	35,582
Other	**609**	637
Total	**92,194**	81,542

Notes to the financial statements (continued)

18 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.

19 Related party transactions

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

20 Called up share capital

Allotted, called up and fully paid:

	2017		2016	
	Number	**£000**	Number	£000
Ordinary shares of £1 each	**500,000**	**500**	500,000	500

21 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 2017 was £5,573,000 (2016: £5,573,000).

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:

	2017	2016
	£000	£000
Not later than one year	**1,421**	1,033
After one year but not more than five years	**2,546**	2,366
After five years	**71**	91
	4,038	3,490

Notes to the financial statements (continued)

23 Financial instruments

	2017	2016
	£000	£000
Financial assets measured at undiscounted amount receivable:		
Trade and other debtors (excluding prepayments)	**9,220**	9,887
Equity instruments measured at cost less impairment:		
Investments in subsidiaries	**330**	330
Financial liabilities at fair value through profit or loss:		
Interest rate swaps	**(173)**	(242)
Financial liabilities measured at amortised cost:		
Bank loans	**1,813**	2,316
Financial liabilities measured at undiscounted amount payable:		
Trade and other creditors (excluding deferred revenue)	**(4,209)**	(4,774)

The Company has in place an interest rate swap to help manage the risk of interest rate volatility on its bank loans that are subject to floating rates of interest. The fair value of the liability has been calculated by discounting the expected future cash flows at prevailing interest rates. Movements in the fair value of the liability are taken to the Income Statement.

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.