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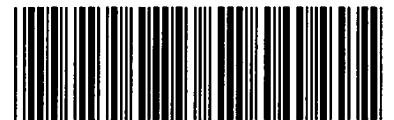
**HSB Engineering Insurance Services  
Limited**

Annual financial statements

For the year ended 31 December 2018

Registered number: 3010292

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## Company information

COMPANY NUMBER	3010292
DIRECTORS	G Bendelow A O'Reilly S Worrall
REGISTERED OFFICE	New London House 6 London Street London EC3R 7LP
AUDITOR	KPMG LLP 1 St Peter's Square Manchester M2 3AE

## Strategic report

The Directors present to the members of HSB Engineering Insurance Services Limited (the Company) the Strategic report for the year ended 31 December 2018. The results for the year are set out in the financial statements on pages 11 to 35.

### Principal activities

The principal activities of the Company are the provision of accredited engineering inspection services in the United Kingdom and in the Republic of Ireland through its branch. The Company also provides engineering advisory services to its parent company, HSB Engineering Insurance Limited.

### Business review

The Company reported revenue for the year of £32,743,000, which was an increase of £805,000, or 2.5%, on the prior year, reflecting an increase in new business and good levels of customer retention during the year, supported by the Company's emphasis on customer service delivery. The Company's profit before tax for the year was £364,000 (2017: £1,917,000), representing a profit margin of 1.1% (2017: 6.0%). The decrease in profit on 2017 was driven by a planned exceptional cost of £963,000 in respect of a programme of investment in more digital processes to further enhance our customer proposition and experience. This programme is on track and is also expected to realise future operational efficiencies.

The principal key performance indicators which the Directors use to monitor the Company's performance are revenue, operating profit and profit before tax. These are set out on page 11.

### Future developments

The Company plans to continue investing in process improvements and its employees to further enhance the efficiency and effectiveness of the services provided to its customers.

The Company has considered the risks posed by the UK's planned exit from the European Union ("Brexit"). Risks identified include the impact of a downturn in the UK economy and that changes to existing cross-border arrangements may increase the cost of servicing business in the Republic of Ireland. The Directors do not believe that Brexit will have a material impact on the Company's revenue or profits. The Directors continue to closely monitor developments as Brexit progresses to ensure that the Company can respond accordingly as the structure and form of the UK's exit from the European Union becomes clearer.

### Risk management

The Company adopts a transparent and consistent approach to the design and operation of its risk management framework in accordance with the Risk Management Principles set out by the Company's immediate and ultimate parent companies. The Company considers risks proportionately, ensuring there is clear ownership and accountability throughout the organisation, with several levels of independent oversight in place, ensuring staff are well trained and risk management practices and principles are embedded across the organisation.

The Board of Directors is responsible for setting the strategic direction of the Company and defining the overall tolerance for risk, including the review of major risk exposures and the establishment of certain risk limits. The Board is also responsible for risk governance. An independent risk function is in place through the Company's immediate parent company, HSB Engineering Insurance Limited. This function serves to provide an objective challenge to management over the effectiveness of the Company's risk management practices; risk monitoring processes; and the adequacy of the Company's internal controls framework.

The Company adheres to the risk management framework established by its immediate parent company, which focuses on timely recognition and proactive management of risks. The framework also includes an internal self-assessment system to assess the effectiveness of the key controls in place to mitigate risks. This system is used to focus attention on any identified weaknesses and action plans are put in place when any weakness is identified. The risk framework and self-assessment system is used as a basis for review and challenge by management.

## Strategic report (continued)

### Principal risks and uncertainties

The Company's operations expose it to a variety of risks that include credit risk, liquidity risk and operational risk. Given the size of the Company and its position within the Group comprising Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft (Munich Re) and its subsidiaries, collectively known as Munich Re Group, the Directors have not established a sub-committee of the Board to monitor financial risk management, but implement and monitor those policies established by the Company's immediate UK parent, HSB Engineering Insurance Limited. The principal risks of the Company are as follows:

#### Credit risk

Credit risk is defined as the risk of financial loss as a result of a change in the financial position of a counterparty. The Company is exposed to credit risk on outstanding receivables from customers. Where appropriate, relevant credit checks are performed on potential customers before sales are made. More information about credit risk can be found in note 19 of the financial statements.

#### Liquidity risk

Liquidity risk is defined as the risk that funds are not available to meet obligations at a reasonable time or at a reasonable cost. The Company ensures that funds are available to meet such calls through its operating cash and working capital management processes as well as the funding available from its immediate parent, HSB Engineering Insurance Limited. More information on liquidity risk can be found in note 19 of the financial statements.

#### Operational risk

Operational risk is defined as the potential losses resulting from inadequate processes, technical failure, human error or unforeseen adverse external events. The Company adopts a range of measures to mitigate operational risk exposure. Emphasis is placed on the selection and training of managers and staff and the provision of effective guidance, through such measures as documented policies and procedures, operating manuals and systems controls. The Company retained its accreditations for both the quality assurance system and occupational health and safety management system to ISO/IEC 17020:2012 and BS OHSAS 18001 respectively and in 2018 attained accreditation to the new ISO 45001 Health and Safety Standard, replacing the existing standard. These standards include frameworks for internal and external audit, safety systems, technical training and competency assessment.

#### Group risk

Group risk is defined as the risk of any activity, circumstance, event or series of events involving one or more affiliates of the Group that, if not remedied promptly, is likely to have a material adverse effect upon the Company.

#### Outsourcing risk

The Company is reliant on outsourced arrangements for the provision of certain services, which are performed by third parties or other entities within the Group, such as IT application and infrastructure support activities. Where services are outsourced, management apply the same risk management and monitoring framework as though the services were provided in-house. With all material outsourcing arrangements there a regular flow of information between the Company and the outsourced service providers in order to mitigate and manage the associated risks.

#### Defined benefit pension scheme funding risk

The Company has an ongoing commitment to fund its defined benefit pension scheme, which is closed to new entrants and, from 30 June 2016, to accrual of future benefits. Pension funding risk is the risk that the value of the scheme assets will be insufficient to cover the obligations to scheme members. To mitigate this risk, management, together with the trustees of the scheme, regularly review reports prepared by the scheme's independent actuary to assess the risks and take appropriate actions.

On behalf of the Board



S Worrall

Director

15 April 2019

Registered Number: 3010292

## Directors' report

The Directors present to the members of HSB Engineering Insurance Services Limited their Directors' report and the audited financial statements for the year ended 31 December 2018.

As permitted by Section 414C(11) of the Company's Act 2006, certain information is not included in the Directors' report because it has instead been shown in the Strategic Report. This information is:

- Principal activities
- Business review
- Principal risks and uncertainties

### Results and Dividends

The results for the year are set out in the Income Statement on page 11. A review of the Company's business activities and any likely future developments can be found in the Strategic Report.

The profit for the year before taxation amounted to £364,000 (2017: £1,917,000). The Directors do not propose the payment of a dividend in respect of the year ended 31 December 2018 (2017: £1,000,000).

### Directors

The Directors who held office during the year and up to the date of approval of this Directors' Report were as follows:

G Bendelow  
A P Milton (Resigned 7 December 2018)  
A O'Reilly  
S Worrall

### Liability insurance

The Company, through its ultimate parent company, Munich Re, purchased and maintained liability insurance for its Directors as permitted by section 233 of the Companies Act 2006.

### Policy and practice on payment of creditors

It is the policy of the Company to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

### Political contributions

No political contributions were made during the year (2017: £nil).

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out above and in the Strategic Report. The Company's Statement of financial position shows net current assets of £4,625,000 and net assets of £5,317,000.

Based upon their own analysis of the available information, including forward looking information, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Employees

#### *Disabled persons*

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and appropriate training is arranged or support put in place. It is the policy of the Company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

## **Directors' report (*continued*)**

### **Employees (*continued*)**

#### ***Employee involvement***

Involvement of employees is achieved through various methods which include, but are not limited to, quarterly all employee meetings, employee forums, periodic employee surveys, performance reviews, corporate communication, intranet news articles and features, and staff wellness and recognition programmes.

Consultation with employees or their representatives has continued at all levels, with the aim that views are taken into account when decisions are made that are likely to affect their interests.

#### ***Gender pay reporting***

Gender pay reporting information is available on the Company's website. The Company believes that having a balanced and diverse employee base is key to the success of the business and our customer experience. The Company is committed to creating an inclusive culture and environment of equality where all employees can have the opportunity to realise their full potential. The reported gender pay figures provide a further means of measuring the results of the positive work which has already begun to attract and retain the best talent. The Directors are committed to continuing to undertake action to reduce the gender pay gap.

#### ***Board diversity policy***

It is the Company's policy to maintain and develop the diversity of its Board without compromising on the calibre of new directors appointed. Appointments to the Board are based on merit while complementing the existing diversity of skills, knowledge and experience of the Board as a whole.

#### ***Disclosure of information to the auditor***

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### ***Auditor***

The Company's auditor is KPMG LLP. The auditor is deemed to have been reappointed in accordance with section 487 of the Companies Act 2006 and KPMG LLP will therefore continue in office.

#### **On behalf of the Board**



S Worrall

**Director**

15 April 2019

**Registered Number: 3010292**

## **Statement of Directors' responsibilities in respect of the annual 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 HSB Engineering Insurance Services Limited

## **Opinion**

We have audited the financial statements of HSB Engineering Insurance Services Limited ("the company") for the year ended 31 December 2018 which comprise the Income Statement, Statement of other comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## **Strategic report and Directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

# Independent Auditor's report to the members of HSB Engineering Insurance Services Limited (*Continued*)

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## ***Directors' responsibilities***

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## ***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## ***The purpose of our audit work and to whom we owe our responsibilities***

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.



**Andrew Jones (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
1 St Peter's Square  
Manchester  
M2 3AE  
15 April 2019

## Income statement

for the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Revenue from contracts with customers	3	32,743	31,938
Contract costs		(4,618)	(4,511)
<b>Gross profit</b>		<b>28,125</b>	<b>27,427</b>
Administrative expenses		(26,864)	(25,422)
Credit gains / (losses) on trade receivables *	11	130	(116)
Operational investment costs		(963)	(105)
<b>Operating profit</b>		<b>428</b>	<b>1,784</b>
Finance income/(expense)	8	(64)	133
<b>Profit before tax</b>	6	<b>364</b>	<b>1,917</b>
Income tax expense	9	(79)	(327)
<b>Profit for the year</b>		<b>285</b>	<b>1,590</b>

All income statement transactions relate to continuing activities.

\* The 2017 figure has been reclassified from 'Administrative expenses' to 'Credit losses on trade receivables' in order to comply with amendments introduced by a new accounting standard during the year (IFRS 9 *Financial Instruments*). See Note 1 for further details.

## Statement of other comprehensive income

for the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
<b>Profit for the year</b>		<b>285</b>	<b>1,590</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to income statement:</i>			
Actuarial (losses)/gains on defined benefit pension scheme	13	(410)	3,675
Amount of defined benefit pension scheme not recognised due to effect of asset ceiling	13	570	(3,676)
Deferred tax on actuarial (losses)/gains	9	(24)	(52)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>136</b>	<b>(53)</b>
<b>Total comprehensive income for the year</b>		<b>421</b>	<b>1,537</b>

The notes on pages 15 to 35 form an integral part of these financial statements.

# Statement of financial position

at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
<b>Non-current assets</b>			
Pension scheme assets	13	-	-
Property, plant and equipment	10	422	305
Deferred tax assets	15	270	265
<b>Total non-current assets</b>		<u>692</u>	<u>570</u>
<b>Current assets</b>			
Trade and other receivables	11	19,148	18,407
Prepayments and contract costs		1,774	1,763
Cash and bank balances		4,066	3,195
<b>Total current assets</b>		<u>24,988</u>	<u>23,365</u>
<b>Total assets</b>		<u>25,680</u>	<u>23,935</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	912	912
Other reserves		3,292	3,292
Retained earnings		1,113	692
<b>Total equity</b>		<u>5,317</u>	<u>4,896</u>
<b>Liabilities</b>			
Trade and other payables	12	7,232	5,938
Deferred income		13,019	12,650
Current tax liabilities		112	451
<b>Total liabilities</b>		<u>20,363</u>	<u>19,039</u>
<b>Total equity and liabilities</b>		<u>25,680</u>	<u>23,935</u>

The notes on pages 15 to 35 form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 15 April 2019 and were signed on its behalf by:



S Worrall  
Director



A O'Reilly  
Director

HSB Engineering Insurance Services Limited Registered Number: 3010292

## Statement of changes in equity

at 31 December 2018

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 1 January 2017</b>	912	3,289	3	155	4,359
Profit for the year	-	-	-	1,590	1,590
Other comprehensive loss	-	-	-	(53)	(53)
Total comprehensive income	-	-	-	1,537	1,537
Dividend paid	-	-	-	(1,000)	(1,000)
<b>At 31 December 2017</b>	912	3,289	3	692	4,896
Profit for the year	-	-	-	285	285
Other comprehensive income	-	-	-	136	136
Total comprehensive income	-	-	-	421	421
Dividend paid	-	-	-	-	-
<b>At 31 December 2018</b>	912	3,289	3	1,113	5,317

The notes on pages 15 to 35 form an integral part of these financial statements.

## Statement of cash flows

at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
<b>Cash flow used in operating activities</b>			
Profit after tax		285	1,590
<i>Adjustments</i>			
<b>Working capital changes - assets / (liabilities)</b>			
Increase in trade and other receivables		(611)	(1,323)
(Increase) / decrease in prepaid expenses and other assets		(11)	26
Increase in deferred income		369	1,230
Increase in trade creditors and other payables		1,294	977
<b>Non-cash items in profit after tax</b>			
Provision for taxation	9	79	327
Depreciation of property, plant and equipment	10	219	293
Net defined benefit pension scheme costs		160	-
Allowance for expected credit losses		(130)	116
Effect of exchange rate changes		23	(65)
Pension contributions		-	(1)
Tax (paid) / refund received		(447)	7
<b>Net cash inflow from operating activities</b>		<u>1,230</u>	<u>3,177</u>
Purchases of property, plant and equipment	10	(336)	(10)
<b>Net cash outflow from investing activities</b>		<u>(336)</u>	<u>(10)</u>
Dividend paid		-	(1,000)
<b>Net cash outflow from financing activities</b>		<u>-</u>	<u>(1,000)</u>
<b>Net increase in cash and cash equivalents</b>		894	2,167
Cash and bank balances at beginning of the year		3,195	963
Effect of exchange rate changes		(23)	65
<b>Cash and bank balances at end of the year</b>		<u>4,066</u>	<u>3,195</u>

The notes on pages 15 to 35 form an integral part of these financial statements.

# Notes to the financial statements

HSB Engineering Insurance Services Limited (the Company) is a private company, limited by shares and incorporated and domiciled in England. The principal activities of the Company are the performance of statutory, general and insurance inspections of plant and electrical installations and the provision of related advisory services.

## 1 Accounting policies

### **Basis of preparation and statement of compliance**

The financial statements of the Company have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

The financial statements have been prepared on the historical cost basis, except for the revaluation of the defined benefit pension asset, which is recognised as the fair value of the plan assets less the present value of the defined benefit obligation, and other financial assets, which have been recognised at an approximation of fair value.

### **Functional and presentation currency**

These financial statements are presented in Great British Pounds (GBP), which is the Company's functional and presentational currency. Except as otherwise indicated, all financial information presented in GBP has been rounded to the nearest thousand (£000).

### **Going concern**

The financial statements have been prepared on the going concern basis. The Directors have reviewed the budget and cash flow forecasts of the Company for a period of not less than 12 months from the date of approving these financial statements and are confident that they show the Company will have sufficient resources to meet its liabilities as they fall due. Accordingly the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

### **New and revised Standards and Interpretations**

The Company has initially applied IFRS 9 and IFRS 15 from 1 January 2018, the applicable mandatory adoption date. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

#### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require credit losses on financial assets to be presented in a separate line item in the income statement. Previously, the Company's approach was to include the credit losses on trade receivables in administrative expenses. Consequently, the Company reclassified credit losses amounting to £116,000, recognised under IAS 39, from 'administrative expenses' to 'credit losses on trade receivables' in the income statement for the year ended 31 December 2017.

Trade and other receivables which was in the measurement category of loans and receivables under IAS 39 is categorised as measured at amortised cost under IFRS 9. IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has had no significant effect on the financial statements of the Company, since the Company does not have any financial instruments other than receivables and payables. IFRS 9 replaced the incurred loss model with the expected loss model for the determination of credit losses on financial instruments. The Company has used the simplified approach for the determination of credit losses relating to its trade receivables that arise from contracts with customers. This has not resulted in any significant difference in the recognition or measurement of credit losses compared to the previous approach.

# Notes to the financial statements

## 1 Accounting policies (*continued*)

### **New and revised Standards and Interpretations (*continued*)**

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial assets and financial liabilities. Application of IFRS 9 has not resulted in any other significant impact on the Company's financial statements.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. IFRS 15 introduced the performance obligation concept. The Company has determined that its contracts have a single distinct performance obligation, which is the delivery of an inspection for a defined quantity and specification of equipment or items within the period of the contract. Adoption of IFRS 15 has had not any significant impact on the financial statements of the Company as it was concluded that the Company's previous method and timing of revenue recognition and measurement under IAS 18 was in line with the requirements of IFRS 15. Refund liabilities have been recognised as required by IFRS 15 to account for consideration received that is expected to be refunded to customer. The Company has considered all the information (historical, current and forecast) that is reasonably available to the Company.

The presentation and disclosure requirements in IFRS 15 are more detailed than under IAS 18. In particular, the notes to the financial statements have been expanded for the disclosure of:

- Revenue recognised in the reporting period from performance obligations partially satisfied in previous periods;
- The amount of the performance obligation that is unsatisfied at the reporting date and quantification of when the Company expects to recognise as revenue; and
- A description of the methods used to recognise revenue over time and the reason for such methods being a faithful depiction of the transfer of services.

These disclosures can be found in notes 2 and 3.

The following standards were in issue or revised but not yet effective that are relevant for the Company and have not been early adopted by the Company in preparing the financial statements. The Company intends to adopt these relevant standards when they become effective.

#### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Company plans to adopt IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease when applying IAS 17 and IFRIC 4. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.



# Notes to the financial statements

## 1 Accounting policies (continued)

### New and revised Standards and Interpretations (continued)

In summary the impact of IFRS 16 adoption is expected to be as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:	£'000
Assets:	
Property, plant and equipment (right of use assets)	2,021
Liabilities:	
Lease liabilities	(2,021)
Deferred tax liabilities	-
Net impact on equity	-
<b>Impact on the statement of profit or loss (increase/(decrease)) for 2018:</b>	<b>£'000</b>
Depreciation expense	(829)
Finance cost	(21)
Operating lease expense under IAS 17	909
Income tax expense	(11)
Net impact on profit for the year	48

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

### Definition of Material (Amendments to IAS 1 and IAS 8)

The changes from the Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

### Amendment to IAS 19 Employee Benefits (expected to be endorsed by the EU before effective date)

The amendments to IAS 19 specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability/(asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability/(asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability/(asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in the income statement. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

# Notes to the financial statements

## 1 Accounting policies (continued)

### New and revised Standards and Interpretations (continued)

#### *Amendments to the Conceptual Framework for Financial Reporting*

The Conceptual Framework for Financial Reporting (Conceptual Framework) describes the objective of and concepts for general purpose financial reporting. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards.

Other standards in issue or amendments that are not yet effective are not expected to significantly impact the financial statements of the Company.

#### **Use of estimates and assumptions**

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Information about assumptions used and other sources of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed in Note 2.

#### **Revenue from contracts with customers**

The Company derives revenue from the provision of engineering inspection services and from the provision of engineering advisory services to its parent company. Revenue is measured based on the consideration specified in the contract with the customer. The invoice is generated at the inception of the contract and is usually payable within 30 days. No discounts are offered to customers. Revenue is recognised when the Company satisfies the performance obligation of an inspection under the terms of the contract with the customer. Progress towards complete satisfaction of the performance of the inspection obligation is measured using expectations developed by management and this is considered to be a reasonable depiction of the progress towards complete satisfaction of the performance obligation. A provision for unearned fees is held as deferred income within the balance sheet based on progress towards completion of the performance obligation. All the consideration from the contract with the customer is included in the transaction price that is used to determine deferred income.

Certain contracts provide a customer with a right to cancel the contract within a specified period and receive a refund for unsatisfied performance obligations. This is measured at the amount the Company ultimately expects it will have to return to the customer, which is estimated based on historical data. As permitted by IFRS 15 a refund liability is recognised in the balance sheet and presented within trade and other payables. Estimates of refund liabilities (and the corresponding change in the transaction price) are updated at the end of each reporting period.

Disaggregation of revenue from contracts with customers is not required as the Company largely operates in a single geographical market which is the United Kingdom.

#### **Contract costs**

Contract costs includes commissions payable, a cost incurred to obtain or fulfil the contract. Such costs are recognised as an asset on the balance sheet. These costs are amortised over the period of the contract to which it relates.

# Notes to the financial statements

## 1 Accounting policies (continued)

### Property, plant and equipment

Property, plant and equipment comprise leasehold properties, fixtures, fittings and equipment (including computer hardware). All classes are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that future economic benefits associated to the item will flow to the Company and the cost can be measured reliably.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the income statement on the bases set out below, over the estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Fixtures and fittings	3 to 10 years straight-line
Computer hardware and software	3 to 5 years straight-line
Leasehold property and improvements	Written off over the life of the lease, to a maximum of 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised in the profit and loss account on a straight line basis over the shorter of the lease term and the period ending in a date from which it is expected the prevailing market rental will be payable.

### Employee benefits

The Company operates various post-employment benefit schemes. The Company has both defined contribution schemes and a defined benefit scheme. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company, in a separate, trustee administered fund.

The cost of defined benefit pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are assessed based upon market values.

The Company immediately recognises actuarial gains and losses on the benefit obligation and plan assets, which are recorded in other comprehensive income and then included in retained earnings. The Company determines the net interest expenses/(income) on the net defined benefit liability/(asset) for the year by applying the discounted rate used to measure the defined obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the end of the year, adjusted for the impact of the asset ceiling and for contributions and benefit payments. Consequently, the net interest on the net defined benefit liability/(asset) comprises interest cost on the defined benefit obligation, interest income on plan assets and interest cost on the effect of the asset ceiling.

# Notes to the financial statements

## 1 Accounting policies (continued)

### Employee benefits (*continued*)

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

### Financial instruments

#### *Initial recognition and measurement*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. As trade receivables do not contain a significant financing component, these are measured at the transaction price determined under IFRS 15 and are recognised on the date when an invoice is raised. All other receivables are initially measured at fair value plus transaction cost and are recognised on transaction date, i.e. the date when the Company has established a right to collect cash flows. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Cash flows result from collecting contractual amounts arising from recognition of trade receivables and other receivables.

At initial recognition financial liabilities are classified as payables. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. The Company's financial liabilities are trade and other payables.

#### *Subsequent measurement*

All financial assets are subsequently measured at amortised cost as both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in income statement when the asset is derecognised, modified or impaired.

After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

# Notes to the financial statements

## 1 Accounting policies (continued)

### Financial instruments (continued)

#### *Derecognition (continued)*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

#### *Impairment of financial assets*

The Company recognises an allowance for expected credit losses (ECLs) for all financial assets subsequently measured at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables arising from contracts with customers, the Company applies a simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. ECLs are recognised in a separate allowance for doubtful debts. Receivables for which an ECL was recognised are written off against the allowance when there is no expectation of recovering additional cash.

Impairment losses and any reversals for amounts no longer required are recognised in the income statement as separate line item. Subsequent recoveries of amounts previously written off are credited against administrative expenses.

The Company considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### *Offset of financial assets and financial liabilities*

Financial assets and liabilities are offset, and the net amount reported in the Company's statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

# Notes to the financial statements

## 1 Accounting policies (*continued*)

### Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statement of other comprehensive income.

Current tax is the expected tax payable on the taxable result for the period and any adjustment to the tax payable in respect of previous periods. Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes and these differences will be eliminated at a later date with a corresponding effect on taxable income. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the year-end date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Foreign currency translation

Foreign currency transactions are translated into the functional currency GBP (£), using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period. Non-monetary items are carried at historical cost using the exchange rate at the date of transaction.

## 2 Critical judgements and accounting estimates in applying accounting policies

The Company makes judgements, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area that requires accounting estimates and judgement are:

### Defined benefit pension scheme

The Company operates a defined benefit pension scheme. The pension asset or liability recognised in the balance sheet net of associated deferred taxation is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of other comprehensive income for the period. The movement in the attributable deferred taxation is shown separately in the statement of other comprehensive income.

The assumptions used in determining the charge to income statement for these benefits include the discount rate. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans.

## Notes to the financial statements

### 2 Critical accounting estimates and judgements in applying accounting policies (*continued*)

#### Defined benefit pension scheme (*continued*)

At the end of each year an appropriate discount rate is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. Other key assumptions for the pension costs and credits are based in part on current market conditions. Refer to note 13.

Under the requirements of IFRIC 14, the amount of surplus of defined benefit assets over defined benefit obligations, if any, which is recoverable as an asset is calculated as the present value of the difference between:

- (i) the estimated future service cost in each year over the expected future lifetime of the plan  
less
- (ii) the minimum funding contributions required in respect of the future accrual of benefits in that year over the expected future lifetime of the plan.

#### Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customers that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the construction sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in note 11 and 19.

#### Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and it is measured at the amount the Company ultimately expects it will have to return to the customer. The Company uses historical refund data to estimate the expected value of future refunds. Any significant changes in experience as compared to historical refund pattern will impact the expected refunds estimated by the Company. The Company updates its assessment of expected refunds quarterly and the refund liabilities are adjusted accordingly. Estimates of expected refunds are sensitive to changes in circumstances and the Company's past experience regarding refund entitlements may not be representative of customers' actual refund entitlements in the future.

### 3 Revenue from contracts with customers

Revenue recognised during the year that relates to performance obligations that were partially satisfied in prior periods was £11,883,000 (2017: £10,513,000). The aggregate amount of contract consideration that relates to performance obligations that are unsatisfied at the end of the year is disclosed as deferred income. The majority of this amount is expected to be recognised as revenue within a year.

## Notes to the financial statements

### 4 Staff costs

Staff costs for all employees comprise:

	31 December 2018 £'000	31 December 2017 £'000
Wages and salaries	15,539	15,064
Social security costs	1,910	1,790
Pension costs – defined contribution plans	1,705	1,617
Pension costs – defined benefit plan	139	-
	<u>19,293</u>	<u>18,471</u>

The average number of employees during the year was as follows:

	31 December 2018 Number	31 December 2017 Number
Technical	258	249
Administrative and management	32	34
	<u>290</u>	<u>283</u>

### 5 Directors' emoluments

The aggregate amount of Directors' emoluments was as follows:

	31 December 2018 £'000	31 December 2017 £'000
a) Aggregate emoluments	409	305

b) Emoluments of the Directors were as follows:

	31 December 2018				31 December 2017
	Fees and Salaries £'000	Bonus £'000	Other benefits £'000	Total £'000	Total £'000
Highest paid Director	227	41	23	291	198
All Directors	319	47	43	409	305

Other benefits include pension contributions. Retirement benefits accrued to two Directors under defined benefit pension schemes (2017: two).

The remuneration of certain Directors is paid by the Company's immediate parent company, HSB Engineering Insurance Limited, and the Company was recharged £193,000 (2017: £178,000) in respect of their services to the Company. The remuneration of these Directors is disclosed within the financial statements of HSB Engineering Insurance Limited.



## Notes to the financial statements

<b>6</b>	<b>Profit before tax</b>	<b>31 December</b> <b>2018</b> <b>£'000</b>	<b>31 December</b> <b>2017</b> <b>£'000</b>
	<b>Profit before tax has been arrived at after charging / (crediting)</b>		
	Depreciation of property, plant and equipment	219	293
	Operating lease rentals		
	- Land and buildings	1	121
	- Motor vehicles	885	935
<b>7</b>	<b>Auditor's remuneration</b>	<b>31 December</b> <b>2018</b> <b>£'000</b>	<b>31 December</b> <b>2017</b> <b>£'000</b>
	Fees payable to the Company's auditor for the audit of the Company's annual accounts	35	20
		<b>35</b>	<b>20</b>
<b>8</b>	<b>Finance income/(expense)</b>	<b>31 December</b> <b>2018</b> <b>£'000</b>	<b>31 December</b> <b>2017</b> <b>£'000</b>
	Net interest income on pension scheme	298	205
	Interest on asset ceiling of pension scheme	(298)	(205)
	Foreign exchange	(64)	133
		<b>(64)</b>	<b>133</b>
<b>9</b>	<b>Tax expense</b>		
	The tax amounts charged in the income statement are as follows:		
		<b>31 December</b> <b>2018</b> <b>£'000</b>	<b>31 December</b> <b>2017</b> <b>£'000</b>
	<i>Current tax</i>		
	- Current year	99	453
	- Prior years	9	(12)
	<i>Deferred tax</i>		
	- Temporary differences	(29)	(114)
	<b>Total tax expense</b>	<b>79</b>	<b>327</b>
	The tax amounts charged in other comprehensive income are as follows:		
		<b>31 December</b> <b>2018</b> <b>£'000</b>	<b>31 December</b> <b>2017</b> <b>£'000</b>
	<i>Deferred tax</i>		
	- Temporary differences	(24)	(52)

## Notes to the financial statements

### 9 Tax expense (continued)

Tax on the Company's result before tax differs from the United Kingdom effective rate of corporation tax for the period ended 31 December 2018 of 19.0% (2017: 19.25%). The differences are explained below:

	31 December 2018 £'000	31 December 2017 £'000
Profit before tax	364	1,917
Tax calculated at the UK effective rate of tax of 19.0% (2017: 19.25%)	69	369
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes	(1)	4
Adjustments to tax charge in respect of prior periods	9	(12)
Change in deferred tax rates	-	(40)
Foreign tax booked	2	6
<b>Total tax expense</b>	<b>79</b>	<b>327</b>

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) were substantively enacted on 26 October 2015. A further reduction to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. See note 15.

### 10 Property, plant and equipment

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	127	1,716	1,843
Additions	-	336	336
At 31 December 2018	127	2,052	2,179
<b>Accumulated depreciation</b>			
At 1 January 2018	67	1,471	1,538
Charge for the year	12	207	219
At 31 December 2018	79	1,678	1,757
<b>Carrying amount at 31 December 2018</b>	<b>48</b>	<b>374</b>	<b>422</b>
<b>Cost</b>			
At 1 January 2017	127	1,706	1,833
Additions	-	10	10
At 31 December 2017	127	1,716	1,843
<b>Accumulated depreciation</b>			
At 1 January 2017	52	1,193	1,245
Charge for the year	15	278	293
At 31 December 2017	67	1,471	1,538
<b>Carrying amount at 31 December 2017</b>	<b>60</b>	<b>245</b>	<b>305</b>

Depreciation expense has been charged in administrative expenses.

## Notes to the financial statements

### 11 Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Trade receivables arising from contracts with customers	7,577	8,807
Allowance for ECL	(223)	(353)
Other receivables	336	362
Amounts owed by group undertakings	11,458	9,591
	<u>19,148</u>	<u>18,407</u>

Allowance for ECL is based on an impairment analysis performed at each reporting date using a provision matrix, as shown in Note 19, to measure expected credit losses. None of the trade and other receivables have been determined to be individually impaired based on the impairment factors used by the Company.

Movements in the allowance for ECL are as follows:

	31 December 2018 £'000	31 December 2017 £'000
At 1 January	(353)	(237)
Allowance recognised during the year	-	(116)
Debts written off during the year	-	-
Amounts reversed	130	-
At 31 December	<u>(223)</u>	<u>(353)</u>

### 12 Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Trade creditors	402	159
Other taxation and social security payable	3,596	2,720
Accruals	2,974	3,059
Refund liabilities	260	-
	<u>7,232</u>	<u>5,938</u>

### 13 Retirement benefit schemes

The Company operates a funded defined benefit scheme in the UK administered by a single pension fund. The board of the pension fund comprises of two employee and two employer representatives and an independent chair. The board of the pension fund is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

The scheme was closed to new members with effect from 31 December 2003 and future accrual of benefits ceased for all members on 30 June 2016. However, participating employees who were active members at 30 June 2016 retain a final salary link, so their pension benefits increase in line with increases in their pensionable salary while they remain in employment with the Company.

Contributions to the scheme have been determined by a qualified independent actuary using the projected unit method. The most recent actuarial valuation was carried out as at 31 December 2015 for the purposes of these disclosures.

## Notes to the financial statements

### 13 Retirement benefit schemes (continued)

Up to 30 June 2016, contributions were paid to the scheme by the members at the rate of 7.00% of Pensionable Salaries and the Company at the rate of 12.25% of Pensionable Salaries plus insurance premiums and administrative expenses. Contributions ceased on closure of the scheme to accrual of benefits. The expected contributions to the plan for the next annual reporting period is nil.

The Company has determined that, in accordance with the terms and conditions of the defined benefit plan, and in accordance with statutory requirements, including minimum funding requirements, the present value of refunds or reductions in future contributions is lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, a decrease in the defined benefit asset was necessary at 31 December 2018, referred to below as 'amounts not recognised due to effect of asset ceiling'.

Following a High Court judgement of 26 October 2018 which required the equalisation of male and female members' benefits for the effect of guaranteed minimum pensions, the Company has recognised a past service cost of £139,000, included in the income statement. It is not anticipated that any further service costs will be accrued as a result of this judgement.

The amounts recognised in the statement of financial position under IAS 19 in relation to the plan are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Present value of the obligations	(63,439)	(69,296)
Fair value of plan assets	74,646	80,775
Surplus before consideration of asset ceiling	11,207	11,479
Amounts not recognised due to effect of asset ceiling	(11,207)	(11,479)
<b>Net pension asset recognised on the statement of financial position</b>	<b>-</b>	<b>-</b>

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset / (liability)	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Balance at 1 January	(69,296)	(69,913)	80,775	77,511	-	-
<b>Included in income statement</b>						
Past service cost	(139)	-	-	-	(139)	-
Interest (cost) / income	(1,781)	(1,864)	2,079	2,069	298	205
Interest on asset ceiling	-	-	-	-	(298)	(205)
	(1,920)	(1,864)	2,079	2,069	(139)	-
<b>Included in Other comprehensive income:</b>						
<b>Actuarial loss / (gain) arising from:</b>						
Change to financial assumptions	5,330	928	-	-	5,330	928
Return on plan assets excluding interest income	-	-	(5,740)	2,747	(5,740)	2,747
Amount not recognised due to effect of asset ceiling	-	-	-	-	570	(3,676)
	5,330	928	(5,740)	2,747	160	(1)
<b>Other</b>						
Benefits paid	2,447	1,553	(2,447)	(1,553)	-	-
Administrative expenses paid	-	-	(21)	-	(21)	-
Employer contributions	-	-	-	1	-	1
	2,447	1,553	(2,468)	(1,552)	(21)	1
<b>Balance at 31 December</b>	<b>(63,439)</b>	<b>(69,296)</b>	<b>74,646</b>	<b>80,775</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

### 13 Retirement benefit schemes (*continued*)

Plan assets comprise the following for which there is no quoted price in an active market:

	31 December 2018 £'000	31 December 2017 £'000
Investment funds	74,480	80,425
Cash	166	350
Total value of assets	<u>74,646</u>	<u>80,775</u>

The scheme's current asset allocation is approximately 25% in 'growth' assets (e.g. equities and liquid alternative assets) and 75% in 'matching' assets (i.e. gilts). The Scheme currently holds these investments through pooled funds rather than in specific stocks or bonds.

#### Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	31 December 2018	31 December 2017
Discount rate	3.00%	2.60%
Rate of salary increase	4.05%	4.05%
Rate of price inflation	3.30%	3.30%
Rate of pension increases	3.10%	3.05%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The longevity assumptions for males underlying the values of the defined benefit obligations at the reporting date were as follows:

	31 December 2018	31 December 2017
Longevity at age 65 for current pensioners	23.4	23.3
Longevity at age 65 for current members aged 40	27.2	27.0

#### Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have increased the defined benefit obligation by the amounts shown below:

	31 December 2018 £'000	31 December 2017 £'000
Discount rate decrease of 50 basis points	7,303	8,370
Future salary growth increase of 25 basis points	382	975
Inflation rate increase of 10 basis points	1,231	1,404
Future mortality decrease of 10%	1,928	2,169

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

#### Expected cash flows

The expected total benefit payments for the following years are £2,336,000 (Year 1), £2,404,000 (Year 2), £2,474,000 (Year 3), £2,546,000 (Year 4), £2,621,000 (Year 5) and £14,298,000 (next 5 years).

## Notes to the financial statements

### 13 Retirement benefit schemes (continued)

The amounts recognised through the income statement are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Past service cost	139	-
Interest expense on liabilities	1,781	1,864
Interest income on plan assets	(2,079)	(2,069)
Interest on asset ceiling	298	205
Total included in employee benefits expense	<u>139</u>	<u>-</u>

The Company also operates a money purchase pension scheme for employees. The contributions paid or accruing to the money purchase scheme during the year were £1,705,000 (2017: £1,617,000). The Company has no significant exposure to any other post-retirement benefit obligations. The contributions outstanding to the money purchase scheme as at 31 December 2018 were £608,000 (2017: £149,000).

### 14 Share capital

	Ordinary shares of £1 each	
	31 December 2018 £'000	31 December 2017 £'000
Issued, authorised, allotted and fully paid	<u>912</u>	<u>912</u>
	number	number
Issued, authorised, allotted and fully paid	<u>912,092</u>	<u>912,092</u>

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

### 15 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax asset during the current and prior reporting period is as follows:

	Balance at 1 January £'000	Recognised in income statement £'000	Recognised in OCI £'000	Deferred tax assets £'000
<b>2018</b>				
Employee benefits	-	24	(24)	-
Property, plant and equipment	154	(11)	-	143
Provisions	111	16	-	127
Net tax asset/(liability)	<u>265</u>	<u>29</u>	<u>(24)</u>	<u>270</u>
<b>2017</b>				
Employee benefits	-	52	(52)	-
Property, plant and equipment	148	6	-	154
Provisions	55	56	-	111
Net tax asset/(liability)	<u>203</u>	<u>114</u>	<u>(52)</u>	<u>265</u>

The Company has concluded that there will be estimated future taxable profits available to the extent that it is more likely than not that the deferred tax asset will be recoverable.

## Notes to the financial statements

### 16 Commitments

#### Capital commitments

At the year end, the Company had no capital commitments (31 December 2017: None).

#### Operating lease commitments

The Company leases premises and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

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

	31 December 2018		31 December 2017	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000
Within 1 year	-	909	96	896
Between 1 and 5 years	-	1,155	46	1,235
	-	2,064	142	2,131

### 17 Ultimate parent undertaking and controlling party

The Company is a wholly owned subsidiary of HSB Engineering Insurance Limited, whose registered office is New London House, 6 London Street, London, EC3R 7LP. The Company's ultimate owner is Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), whose registered office is Koniginstr. 107, Munich, Germany, and this represents the smallest and largest group of undertakings of which the Company is a member and for which group accounts are drawn up. Copies of the Munich Re group accounts can be obtained from [www.munichre.com](http://www.munichre.com).

### 18 Related party transactions

For the purpose of related party transactions and balances, related parties comprise group undertakings, key management personnel and the employee defined benefit plan. Key management personnel of the Company include all Directors and senior management of the Company.

The Company enters into transactions with group undertakings and key management personnel in the normal course of business. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

The summary of the compensation of key management personnel for the year is as follows:

	31 December 2018 £'000	31 December 2017 £'000
Salaries and short-term employee benefits	817	717
Post-employment benefits	63	65
Other long-term benefits	60	67
Total key management personnel compensation	940	849

## Notes to the financial statements

### 18 Related party transactions (*continued*)

The following significant transactions were carried out with the Company's immediate Parent company, HSB Engineering Insurance Limited (HSB EIL) and with the ultimate Parent company, Munich Re:

	31 December 2018 £'000	31 December 2017 £'000
Operating expenses recharged by HSB EIL	4,256	4,708
Liabilities settled on behalf of HSB EIL	11,601	11,982
Operating expenses recharged by Munich Re	428	363

Balance outstanding between the Company and HSB EIL:

	31 December 2018 £'000	31 December 2017 £'000
Payable to the Company by HSB EIL	11,458	9,591

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2017: £Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions of the Company with its defined pension benefit plan are disclosed in note 13.

### 19 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the creditors of the Company. The most important component of financial risk is credit risk.

There has been no change from the prior period in the nature of the financial risks to which the Company is exposed. The Company's operations are integrated with those of its parent company, HSB Engineering Insurance Limited. The accounts of HSB Engineering Insurance Limited contain details on the management and measurement of financial risks, as informed by stress testing techniques. There have been no changes from the prior year to the objectives, policies and processes for managing these risks.

#### Categories of financial instruments

	31 December 2018 £'000	31 December 2017 £'000
<b>Financial assets – at amortised cost</b>		
Cash and bank deposits	4,066	3,195
Trade and other receivables - net	19,148	18,407
<b>Financial liabilities – at amortised cost, non-interest bearing</b>		
Trade and other payables	7,232	5,938

For bank deposits, loans and receivables items and financial liabilities items, the carrying amounts approximate to fair value owing to the short-term maturity of these financial instruments. There are no restrictions on cash currently in effect.



## Notes to the financial statements

### 19 Financial risk (*continued*)

#### Credit risk

The Company has exposure to credit risk, which is the risk of non-payment of its obligations by counterparties under a financial instrument or customer contract, leading to a financial loss.

Areas where the Company is exposed to credit risk are:

- deposits held with banks;
- amounts due from trade and other receivables.

The following table summarises the Company's exposures to credit risk:

	<b>31 December 2018</b>	31 December 2017
	<b>£'000</b>	£'000
Cash and bank deposits	<b>4,066</b>	3,195
Trade and other receivables net of allowance for ECL	<b>19,148</b>	18,407
Aggregate exposure to credit risk	<b>23,214</b>	21,602

Details of the trade and other receivables and related ECL are provided in Note 11.

The Company's cash balances are regularly reviewed to identify the quality of the counterparty bank and to monitor and limit concentrations of risk.

The level and age of receivable balances are regularly assessed via monthly credit management reports. These reports are reviewed to assess exposure in respect of aged or outstanding balances.

The following table provides information on the carrying value of trade and other receivables before allowance for ECL:

	<b>31 December 2018</b>		31 December 2017	
	Trade receivables	Other receivables	Trade receivables	Other receivables
	£'000	£'000	£'000	£'000
Neither past due nor impaired	5,048	11,794	5,511	9,953
Up to 30 days past due but not impaired	1,468	-	1,674	-
Over 30 days past due but not impaired	1,061	-	1,622	-
Individually impaired	-	-	-	-
	<b>7,577</b>	<b>11,794</b>	<b>8,807</b>	<b>9,953</b>

The Company has trade receivables that are past due date but not impaired. The Company believes that impairment of these assets is not appropriate as the amounts due will be collected through normal credit control procedures. The Company uses a provision matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances. The Company does not hold any collateral as security. Against the overdue balances ECL is determined using loss rates that range from 7.5 to 75 % depending on the number of days the balance has been overdue. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## Notes to the financial statements

### 19 Financial risk (continued)

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

	Average Loss rate (%)	31 December 2018		31 December 2017	
		Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Current (not past due)	0.0	5,048	-	5,511	-
1 to 30 days past due	0.0	1,468	-	1,674	-
31 to 60 days past due	0.0	385	-	403	-
61 to 90 days past due	7.5	206	15	309	23
91 to 120 days past due	15.0	96	14	209	30
121 to 180 days past due	30.0	59	18	320	93
181 days to 360 days past due	45.0	203	92	246	109
More than 360 days past due	75.0	112	84	135	98
Total		<u>7,577</u>	<u>223</u>	<u>8,807</u>	<u>353</u>

The following table presents the credit quality of financial assets that are neither past due or impaired. This is assessed by reference to credit rating as provided by Standard and Poor's or equivalent.

Credit Rating	31 December 2018			31 December 2017		
	Cash and bank deposits	Trade and other receivables	Total	Cash and bank deposits	Trade and other receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000
A++	-	11,458	11,458	-	9,591	9,591
A	4,066	-	4,066	3,195	-	3,195
Not rated	-	5,384	5,384	-	5,873	5,873

The most significant concentration of credit risk is the balance of £11,458,000 (2017: £9,591,000) due from the Company's parent company. There is no concern that the balance cannot be paid in full on demand.

#### Liquidity risk

Liquidity risk is defined as the risk of the Company not being able to meet its financial obligations as they fall due as a result of insufficient access to liquid funds. The Company could be exposed to liquidity risk if there are insufficient financial resources readily available to pay business expenses when they fall due. Exposure to liquidity risk is determined based on the carrying values of payables reflected in the Company's financial statements.

The following table presents the maturity profile of the Company's liabilities based on contractual undiscounted payments. All liabilities are expected to be settled within 12 months after the year-end date.

	31 December 2018 £'000	31 December 2017 £'000
<i>Current</i>		
Trade and other payables	7,232	5,938
Deferred income	13,019	12,650
Current tax liabilities	112	451
	<u>20,363</u>	<u>19,039</u>

#### Currency risk

The Company operates mainly in the United Kingdom and Republic of Ireland and as a result, some foreign exchange risk arises from recognised assets and liabilities denominated in a currency outside the functional currency. The Company also holds cash balances in Euros.

## Notes to the financial statements

### 19 Financial risk (*continued*)

The largest currency exposures with reference to net assets / (liabilities) are shown below.

	31 December 2018 £'000	31 December 2017 £'000
GBP	5,279	4,001
Euro	(148)	994
US Dollar	186	(99)
Total	<u>5,317</u>	<u>4,896</u>

The sensitivity of income statement / equity to movements in currency risk is shown in the following table:

Variable	Change in variable	Increase / (decrease) in profit or loss	
		2018 £'000	2017 £'000
Currency risk	-5%	2	45
	+5%	(2)	(45)

The following assumptions have been made in preparing the above sensitivity analysis:

- currency gains and losses arise from a change in the value of GBP against all other currencies moving in parallel; and
- all other variables, in particular interest rates, remain constant ignoring any impact of forecasts.

There have been no changes from the prior year to the method and assumptions used in preparing the above mentioned sensitivity analysis.

#### Interest rate risk

Cash and cash equivalents are subject to changes in rate sensitivity. The short-term bank deposits and cash and cash equivalents had effective interest rates of 0% to 0.25% (2017: 0% to 0.25%). Bank balances have rates in line with the market rates and any changes would be immaterial. There are no other interest bearing exposures.

### 20 Capital management

For the purpose of the Company's capital management, capital includes share capital and reserves as disclosed in the statement of changes in equity. Given the simple nature of capital items and the absence of any preference shares and borrowings, no active management of the Company's capital is required.

### 21 Subsequent events

There were no significant events occurring after the balance sheet date that would have a material impact on the Company's results of operations, financial position and cash flows.