

**Kratos Analytical Limited**

Report and financial statements

For the year ended

31 March 2016

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## Strategic report

### Principal activities

The company is engaged in the development, manufacture and sale of analytical instruments that are exported mainly to Japan, USA and Europe. In recent years Kratos has also developed a sales and service centre for Shimadzu vacuum pumps at its Manchester site.

### Business review

The company's financial results for the period are set out on page 9.

#### *Development and performance of the business*

The company operating profit before charging exchange rates, interest payments and taxation increased to £2,815,000 (2015: £1,629,000). Exchange movements netted a loss of £76,000 (2015: £329,000 gain).

Surface Analysis business turnover decreased in 2016 by 11% with operating loss (2015: profit) ratios of 19.0%, (2015: 3.0%).

The Mass Spectrometry business turnover increased in 2016 by 8% with operating profits of 15.4%, (2015: 7.5%). Investment continues to develop new Mass Spectrometry products for the Biotechnology, Polymer and Clinical Research and Clinical Diagnostic markets.

#### *Research and development*

Research and development is directed towards both improving the performance of existing product lines and producing marketable new products. Close contact and co-operation is maintained with universities in the UK, Europe and USA.

The amount spent on research and development during the year to 31 March 2016 was £4,150,000, 11.3% of turnover (2015: £3,732,000, 10.3% of turnover).

#### *Principal risks and uncertainties*

The company competes by providing leading edge, high technology R&D products to specialist niche markets. Any factor, therefore, that would impinge on its ability to develop such products would be a major risk to the business. Kratos maintains a high level of R&D staff to support its development and engineering programmes. These programmes are monitored under New Product Introduction procedures that ensure due consideration of the marketability of new products, sets out a timetable for development and ensures a strict quality evaluation before launch.

There is still a level of uncertainty associated with the current global economic situation.

A stronger GBP will be an issue in terms of profitability, but all the MALDI business and two thirds of the Surface business are in GBP, so the remaining risk can be absorbed by the lower cost of imported material for the production.

Kratos is accredited to ISO 9001 that principally sets up standards for production of instruments to ensure consistency of manufacture in order to eliminate risk of machine failures. In 2011 Kratos also secured the ISO 13485 medical devices standard.

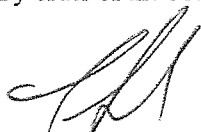
Kratos manages Health and Safety through risk assessment and a Health and Safety committee. Steps taken to avoid IT failure include the storage of back up data in a separate building.

***Key performance indicators***

Kratos uses certain management performance indicators to monitor group and product performance. These are determined differently from those that might be derived from statutory accounting data in this report.

Ratio	2016	2015
Operating profit to sales – Company	7.4%	5.4%
Operating (loss)/profit to sales – Surface Analysis division	(19.0%)	(3.0%)
Operating profit Mass Spec division	15.4%	7.5%
Stock turn – months	4.5	4.0
Operating Profit to capital employed	9.2%	6.3%
Sales per employee	192,156	185,000

By order of the board



T Brooks  
*Company Secretary*

Date: 28.9.16

Wharfside  
Trafford Wharf Road  
Manchester  
M17 1GP

## Directors' report

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

A comprehensive business review is included within the strategic report.

### Corporate status

Kratos Analytical Limited is a private limited company incorporated in England and Wales with company number 563161. The company is domiciled in the United Kingdom and has its registered office at Wharfside, Trafford Wharf Road, Manchester, M17 1GP.

### Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The profit for the year is £1,288,000 (2015: £1,180,000).

### Directors

The directors who held office during the period were as follows:

H Murakita	-	Resigned 29 June 2016
K Shimazu		
H Waki	-	Appointed 29 June 2016

### Employee involvement

The company continues to provide employees with information on matters of concern to them and regularly consults them and their representatives about affairs of the company. Every effort is made to maintain and develop existing arrangements to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the company. Employees are also encouraged to contribute ideas that will improve quality and performance in all aspects and areas of the company.

### Disabled persons

It is company policy to give full consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the company who become disabled to continue in their employment and to be trained for other positions within the company.

### Political and charitable donations

The company made nil political donations (2015: £nil). Donations to UK charities amounted to £nil (2015:nil).

### Going concern

The directors have concluded that it is appropriate to prepare the accounts on a going concern basis as the company had adequate cash resources and financial projections indicate that the company will continue to trade within its existing bank facilities.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the company, its cash flows, liquidity position and borrowing facilities are disclosed in these financial statements.

The company meets its day to day working capital requirements through an overdraft facility which automatically rolls forward for 12 months from the anniversary date of 1 February, unless terminated by the day preceding the expiry date of 31 January. The overdraft has been renewed post year end until the next roll forward date of 31 January 2017.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility on the assumption the overdraft is renewed on the roll forward date.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Financial instruments

The company's policy on financial risk management objectives and exposure to risk is detailed in note 18.

### **Research and development**

The company's policy on Research and Development is included in the Strategic Report.

### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Directors' report *(continued)*

### Auditor

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) is deemed to be reappointed under Section 487(2) of the Companies Act 2006.

By order of the board



T Brooks  
*Company Secretary*

Date: 28.9.16

Wharfside  
Trafford Wharf Road  
Manchester  
M17 1GP

## **Statement of directors' responsibilities in the preparation of the financial statements**

The directors are responsible for preparing the Strategic Report and 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 the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



## **Independent auditor's report to the members of Kratos Analytical Limited**

We have audited the financial statements on pages 9 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 more fully explained in the Directors' Responsibilities Statement set out on page 6, 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 (APB'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 <http://www.frc.org.uk/auditscopeukprivate>

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent auditor's report to the members of Kratos Analytical 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.



Anthony Steiner, Senior Statutory Auditor  
For and on behalf of

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP)  
Statutory Auditor  
Chartered Accountants  
Bluebell House  
Brian Johnson Way  
Preston  
Lancashire  
PR2 5PE

Date: 5.10.16

**Statement of total comprehensive income**  
*for year ended 31 March 2016*

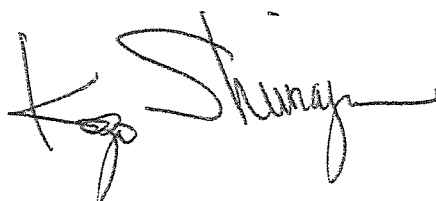
	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
<b>Revenue</b>	2	36,894	36,101
Cost of sales		<u>(28,575)</u>	<u>(28,544)</u>
<b>Gross profit</b>		8,319	7,557
Distribution expenses		(1,309)	(1,555)
Administrative expenses		(4,742)	(4,044)
Other income		<u>471</u>	<u>-</u>
<b>Operating profit</b>	3-5	2,739	1,958
Financial income	6	683	828
Financial expense	6	<u>(1,193)</u>	<u>(1,319)</u>
<b>Net financing costs</b>		<u>(510)</u>	<u>(491)</u>
<b>Profit before tax</b>		2,229	1,467
Taxation	7	<u>(941)</u>	<u>(287)</u>
<b>Profit for the period</b>		1,288	1,180
<b>Other comprehensive income</b>			
Defined Benefit Plan actuarial gains/(losses)	15	1,767	(4,228)
Taxation on other comprehensive income	10	<u>(228)</u>	<u>919</u>
<b>Total comprehensive income for the period</b>		<u><u>2,827</u></u>	<u><u>(2,129)</u></u>

**Statement of Financial Position**  
*at 31 March 2016*

	Note	31 March 2016 £000	31 March 2015 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	4,086	4,336
Intangible assets	9	-	-
Deferred tax assets	10	2,500	3,493
		<u>6,586</u>	<u>7,829</u>
<b>Current assets</b>			
Inventories	11	13,892	15,595
Trade and other receivables	12	11,401	10,958
Cash and cash equivalents	13	307	102
		<u>25,600</u>	<u>26,655</u>
<b>Total assets</b>		<u>32,186</u>	<u>34,484</u>
<b>Equity</b>			
Share capital	17	31,760	31,760
Retained earnings		(21,032)	(23,859)
<b>Total equity</b>		<u>10,728</u>	<u>7,901</u>
<b>Current liabilities</b>			
Trade and other payables	14	6,987	10,485
Provisions	16	564	345
Current tax liabilities		73	-
		<u>7,624</u>	<u>10,830</u>
<b>Non-current liabilities</b>			
Employee benefits	15	13,614	15,385
Provisions	16	220	368
		<u>13,834</u>	<u>15,753</u>
<b>Total liabilities</b>		<u>21,458</u>	<u>26,583</u>
<b>Total Equity and Liabilities</b>		<u>32,186</u>	<u>34,484</u>

These financial statements on pages 9 to 37 were approved by the board of directors and authorised for issue on and are signed on its behalf by:

K Shimazu  
Director



28.9.16

**Statement of Changes in Equity**  
*For the year ended 31 March 2016*

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 April 2014	31,760	(21,730)	10,030
Profit for the period	-	1,180	1,180
<b>Other comprehensive income</b>			
Defined benefit plan actuarial losses net of tax	-	(3,309)	(3,309)
Total other comprehensive income	-	(3,309)	(3,309)
Total comprehensive income for the period	-	(2,129)	(2,129)
Balance at 31 March 2015	31,760	(23,859)	7,901

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 April 2015	31,760	(23,859)	7,901
Profit for the period	-	1,288	1,288
<b>Other comprehensive income</b>			
Defined benefit plan actuarial gains net of tax	-	1,539	1,539
Total other comprehensive income	-	1,539	1,539
Total comprehensive income for the period	-	2,827	2,827
Balance at 31 March 2016	31,760	(21,032)	10,728

The aggregate deferred tax relating to items that are credited to equity is £2,500,000 (2015: £3,493,000).

**Statement of Cash Flows**  
*for year ended 31 March 2016*

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
	Note		
<b>Cash flows from operating activities</b>			
Profit for the period		1,288	1,180
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		727	506
Foreign exchange losses/(gains)		76	(329)
Pension scheme funding in excess of service costs		(514)	(493)
Financial income		(683)	(828)
Financial expense		1,193	1,319
Taxation		838	287
Loss on disposal of property, plant and equipment		1	44
		<u>2,926</u>	<u>1,686</u>
Increase in trade and other receivables		(443)	(1,779)
(Increase)/Decrease in inventory		1,703	(965)
Decrease/(Increase) in trade and other payables		(3,498)	1,717
Increase/(Decrease) in provisions		71	(216)
		<u>759</u>	<u>443</u>
Interest paid		-	-
<b>Net cash from operating activities</b>		<u>759</u>	<u>443</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		15	-
Acquisition of property, plant and equipment	8	(493)	(877)
<b>Net cash from investing activities</b>		<u>(478)</u>	<u>(877)</u>
<b>Cash flows from financing activities</b>		<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		281	(434)
Cash and cash equivalents at 1 April		102	207
Effect of exchange rate fluctuations on cash held		(76)	329
<b>Cash and cash equivalents at 31 March</b>	13	<u>307</u>	<u>102</u>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Kratos Analytical Limited (the “company”) is a company incorporated in the UK.

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (“Adopted IFRSs”).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

#### *Going concern*

The company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the company, its cash flows, liquidity position and borrowing facilities are disclosed in these financial statements.

The company meets its day to day working capital requirements through an overdraft facility which automatically rolls forward for 12 months from the anniversary date of 1 February, unless terminated by the day preceding the expiry date of 31 January. The overdraft has been renewed post year end until the next roll forward date of 31 January 2017.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility on the assumption the overdraft is renewed on the roll forward date.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### *Measurement convention*

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, biological assets and investment property. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

#### *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the statement of comprehensive income upon disposal.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Classification of financial instruments issued by the Company*

In accordance with IAS 32, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as dividends and are recorded directly in equity.

#### *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Land and buildings (Including building improvements) 5-50 years
- plant and equipment 3-10 years

Assets under construction are not depreciated.



## Notes (continued)

### 1 Accounting policies (continued)

#### *Intangible assets and goodwill*

Expenditure on research activities is recognised in the statement of comprehensive income as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the company intends and has the technical ability and sufficient resources to complete development and if the company can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive income as an expense as incurred.

Other intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

patents and trademarks	10 years
capitalised development costs	5 years

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

#### *Impairment excluding inventories and deferred tax assets*

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### *Calculation of recoverable amount*

The recoverable amount of the company's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Impairment excluding inventories and deferred tax assets (continued)*

##### *Reversals of impairment*

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

##### *Employee benefits*

###### *Defined benefit plans*

The company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2007, the date of transition to Adopted IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2007 the Company recognises them in the period they occur directly into equity through the Statement of Comprehensive Income.

Where the calculation results in a benefit to the company, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

###### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Provisions*

A provision is recognised in the balance sheet when the company has a present 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. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Provisions for service contracts are recognised to match the expense of servicing the contracts with income derived.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Revenue*

Revenue is derived principally from the design, manufacture, installation and support of Analytical Instruments and accessories. In addition revenue is derived from the sale and servicing of Shimadzu vacuum pumps and from the bespoke procurement service for Shimadzu Japan (the ultimate parent).

All revenue is stated net of discounts and value added tax and is recognised as follows:

*Machine sales* – on despatch (installation and warranty included in machine sales are not considered to represent a significant part of the contract.)

*Pumps and spares sales* - on despatch

*Service contracts* - time apportioned on a straight line basis over the period of the contract

The company financial statements do not fall within the scope of IFRS 8 to disclose segmental reporting and therefore no information about segments is disclosed.

#### *Expenses*

##### *Operating lease payments*

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *Net financing costs*

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses that are recognised in the statement of comprehensive income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the entity's right to receive payments is established.

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

## Notes (continued)

### 1 Accounting policies (continued)

#### Adoption of new and revised standards

The group has not adopted any new interpretations, revisions or amendments to IFRS issued by the International Accounting Standards Board during the year which have a significant effect on current, prior or future periods in respect of presentation, recognition or measurement. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is provided below.

#### Standards and interpretations in issue not yet adopted

At the date of issue of these financial statements, the following accounting Standards and Interpretations, which have not been applied, were in issue but not yet effective. The directors do not anticipate that adoption of these will have a material impact on the financial statements.

Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRS 15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
IFRS 16	Leases
IAS 27 (as revised in 2011)	Separate Financial Statements
Annual Improvements to FRSs	2012 – 2014 Cycle
Amendments to IAS 16 and IAS 38	Depreciation and Amortisation

### 2 Revenue

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Sale of goods	35,999	35,308
Rendering of services	895	793
	<u>36,894</u>	<u>36,101</u>

### 3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Depreciation and other amounts written off property, plant and equipment	727	506
Hire of other assets – operating leases	19	28
Decrease/(increase) in provisions	71	(216)
Exchange loss/(gains)	76	(329)
Loss on disposal of property, plant and equipment	1	44
Research and development expensed as incurred	<u>4,150</u>	<u>3,732</u>

Auditor's remuneration:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Audit	24	22
Other services relating to accountancy	9	4
Other services relating to taxation compliance services	5	5
Other services relating to taxation	<u>5</u>	<u>5</u>

## Notes (continued)

### 4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees 2016	Number of employees 2015
Administration	12	11
Sales	13	14
Research and development	57	52
Production, assembly, testing and service	110	118
	<u>192</u>	<u>195</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Wages and salaries	6,459	6,869
Social security costs	530	551
Other pension costs	188	187
	<u>7,177</u>	<u>7,607</u>

### 5 Directors' remuneration

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Directors' emoluments	74	72
Pension contribution	-	-
	<u>74</u>	<u>72</u>

K Shimazu was the only director to be remunerated by Kratos Analytical Limited.

Retirement benefits are accruing to nil directors (2015: nil) under the defined benefit pension scheme.

**Notes** *(continued)*

**6 Finance income and expense**

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Expected return on defined benefit pension plan assets	683	828
Financial income	683	828
Interest on defined benefit pension plan obligation	(1,193)	(1,319)
Financial expenses	(1,193)	(1,319)

**7 Taxation**

**Recognised in the statement of comprehensive income**

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Current tax expense	176	-
Deferred tax expense	765	287
	941	287
Total tax in the statement of comprehensive income	941	287

**Notes** *(continued)*

**7 Taxation (continued)**

**Reconciliation of effective tax rate**

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Profit for the period	1,288	1,180
Total tax expense	<u>941</u>	<u>287</u>
Profit excluding taxation	<u>2,229</u>	<u>1,467</u>
Tax using the UK corporation tax rate of 20% (2015: 21%)	446	308
Non-allowable expenses	654	204
Utilisation of tax losses	<u>(159)</u>	<u>(225)</u>
Total tax expense	<u>941</u>	<u>287</u>

The Chancellor stated his intention to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and 18% from 1 April 2020. This change was substantially enacted on 26 October 2015.

**Notes** *(continued)*

**8 Property, plant and equipment**

	Land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
<b>Cost</b>				
Balance at 1 April 2014	3,423	5,237	380	9,040
Additions	23	841	13	877
Disposals	-	(36)	(44)	(80)
Transfers	-	207	(207)	-
	<u>3,446</u>	<u>6,249</u>	<u>142</u>	<u>9,837</u>
Balance at 31 March 2015 and 1 April 2015	-	493	-	493
Additions	-	(106)	-	(106)
Disposals	-	142	(142)	-
Transfers	-	-	-	-
	<u>-</u>	<u>142</u>	<u>(142)</u>	<u>-</u>
Balance at 31 March 2016	<u>3,446</u>	<u>6,778</u>	<u>-</u>	<u>10,224</u>
<b>Depreciation and impairment</b>				
Balance at 1 April 2014	631	4,400	-	5,031
Depreciation charge for the period	135	371	-	506
Disposals	-	(36)	-	(36)
	<u>766</u>	<u>4,735</u>	<u>-</u>	<u>5,501</u>
Balance at 31 March 2015 and 1 April 2015	139	588	-	727
Depreciation charge for the period	-	(90)	-	(90)
Disposals	-	-	-	-
	<u>139</u>	<u>588</u>	<u>-</u>	<u>727</u>
Balance at 31 March 2016	<u>905</u>	<u>5,233</u>	<u>-</u>	<u>6,138</u>
<b>Net book value</b>				
At 1 April or 31 March 2014	<u>2,792</u>	<u>837</u>	<u>380</u>	<u>4,009</u>
At 31 March 2015	<u>2,680</u>	<u>1,514</u>	<u>142</u>	<u>4,336</u>
At 31 March 2016	<u>2,541</u>	<u>1,545</u>	<u>-</u>	<u>4,086</u>



## Notes (continued)

### 9 Intangible assets

	Patents and trademarks £000
<b>Cost</b>	
Balance at 1 April 2014 and 31 March 2015	<u>670</u>
Balance at 1 April 2015 and 31 March 2016	<u>670</u>
<b>Amortisation and impairment</b>	
Balance at 1 April 2014	670
Amortisation for the period	<u>-</u>
Balance at 31 March 2015	<u>670</u>
Balance at 1 April 2015	670
Amortisation for the period	<u>-</u>
Balance at 31 March 2016	<u>670</u>
<b>Net book value</b>	
At 31 March 2014	<u>-</u>
At 31 March 2015	<u>-</u>
At 31 March 2016	<u>-</u>

## Notes (continued)

### 10 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 31 March 2016 £000	Assets 31 March 2015 £000	Liabilities 31 March 2016 £000	Liabilities 31 March 2015 £000
Property, plant and equipment	(27)	(163)	-	-
Employee benefits	(2,451)	(3,077)	-	-
Tax value of loss carry-forwards	-	(253)	-	-
Other short term timing differences	(22)	-	-	-
Net tax assets	(2,500)	(3,493)	-	-

A deferred tax asset of £49,000 (2015: £416,000) has been recognised to the extent that it is expected to be fully utilised in 2017. A deferred tax asset of £2,451,000 (2015: £3,077,000) has been recognised in respect of the pension liability to the extent it is expected to be fully utilised in future years. See analysis of recognised and unrecognised balances below:

	31 March 2016 Unrecognised £000	31 March 2016 Recognised £000	31 March 2015 Unrecognised £000	31 March 2015 Recognised £000
Property, plant and equipment	-	27	-	163
Employee benefits	-	2,451	-	3,077
Trade losses	-	-	-	253
Other short term timing differences	-	22	-	-
Deferred tax asset	-	2,500	-	3,493

#### Movement in deferred tax during the year

	1 April 2015 £000	Recognised in income £000	Recognised in other comprehensive income £000	31 March 2016 £000
Property, plant and equipment	(163)	136	-	(27)
Employee benefits	(3,077)	398	228	(2,451)
Tax value of loss carry-forwards utilised	(253)	253	-	-
Other short term timing differences	-	(22)	-	(22)
	(3,493)	765	228	(2,500)

#### Movement in deferred tax during the prior year

	1 April 2014 £000	Recognised in income £000	Recognised in other comprehensive income £000	31 March 2015 £000
Property, plant and equipment	(279)	116	-	(163)
Employee benefits	(2,232)	74	(919)	(3,077)
Tax value of loss carry-forwards utilised	(350)	97	-	(253)
	(2,861)	287	(919)	(3,493)

## Notes (continued)

### 11 Inventories

	31 March 2016 £000	31 March 2015 £000
Raw materials and consumables	7,136	7,624
Work in progress	6,756	7,971
	<u>13,892</u>	<u>15,595</u>

Included within inventories is £nil (2015: £nil) expected to be recovered in more than 12 months.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the period amounted to £23,200,000 (2015: £27,460,000).

The write-back inventory to net realisable value amounted to £17,000 (2015: £14,000), bringing total provisions to £913,000 (2015: £1,084,000) at the year end. The write-back is included in cost of sales.

### 12 Trade and other receivables

	31 March 2016 £000	31 March 2015 £000
Trade receivables due from related parties	5,725	3,976
Other trade receivables	4,922	6,365
Prepayments and accrued income	754	617
	<u>11,401</u>	<u>10,958</u>

Included within trade and other receivables is £nil (2015: £nil), expected to be recovered in more than 12 months.

At 31 March 2016 trade receivables are shown net of an allowance for doubtful debts of £nil (2015: £nil).

Trade and other receivables denominated in currencies other than GBP comprise at gross value £3,212,000 (2015: £3,036,000) of trade receivables in \$, Euro and Japanese Yen.

**Notes** *(continued)*

**13 Cash and cash equivalents**

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Cash and cash equivalents per balance sheet	<u>307</u>	<u>102</u>
Cash and cash equivalents per cash flow statements	<u>307</u>	<u>102</u>

Cash denominated in currencies other than GBP comprise £294,000 (2015: £102,000) of bank deposits denominated in US dollars, Euro and Japanese Yen.

**14 Trade and other payables**

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Trade payables due to related parties	2,317	5,514
Other trade payables	3,229	3,454
Customer deposits	254	-
Non-trade payables and accrued expenses	<u>1,187</u>	<u>1,517</u>
	<u>6,987</u>	<u>10,485</u>

Trade and other payables denominated in currencies other than GBP comprise at gross value £862,000 (2015: £1,044,000) of trade payables in Euro, Japanese Yen and US Dollars.

## Notes (continued)

### 15 Employee benefits

#### Pension plans

The company operates a funded contributory defined benefits pension scheme covering the majority of its permanent employees. Note 4 to these financial statements show the cost of the scheme.

The scheme is administered by trustees who act independently of the group. Members who leave the scheme with less than two years' service may have their contributions refunded subject to a deduction in respect of income tax. These sums are calculated as they arise and are not provided for in the group financial statements.

Contributions are paid into the scheme in accordance with the recommendations of a qualified actuary who is not an employee or officer of the group. The last full actuarial valuation of 31 March 2013 has been updated by the actuary on an IAS 19 basis as at 31 March 2016.

The cumulative actuarial losses to date are £14,709,000 (2015: £16,476,000).

	31 March 2016 £000	31 March 2015 £000
Present value of funded defined benefit obligations	(34,545)	(36,226)
Fair value of plan assets	20,931	20,841
Net obligations	(13,614)	(15,385)
Related deferred tax asset	2,451	3,077
<i>Total employee benefits</i>	<u>(11,163)</u>	<u>(12,308)</u>

#### Movements in present value of defined benefit obligation

	31 March 2016 £000	31 March 2015 £000
At 1 April	(36,226)	(29,970)
Current service cost	(245)	(280)
Interest cost	(1,193)	(1,319)
Actuarial losses	2,190	(5,421)
Benefits paid	929	764
At 31 March	<u>(34,545)</u>	<u>(36,226)</u>

## Notes (continued)

### 15 Employee benefits (continued)

#### Pension plans (continued)

##### Movements in fair value of plan assets

	31 March 2016 £000	31 March 2015 £000
At 1 April	20,841	18,811
Expected return on plan assets	1,181	1,196
Actuarial gains	(922)	825
Contributions by employer	760	773
Benefits paid	(929)	(764)
	<hr/>	<hr/>
At 31 March	20,931	20,841

##### (Income)/Expense recognised in profit or loss

	31 March 2016 £000	31 March 2015 £000
Current service cost	245	280
Interest on defined benefit pension plan obligation	1,193	1,319
Expected return on defined benefit pension plan assets	(683)	(828)
	<hr/>	<hr/>
Total	755	771

##### The (income)/expense is recognised in the following line items in the statement of comprehensive income:

	31 March 2016 £000	31 March 2015 £000
Administrative expenses	245	280
Finance income	(683)	(828)
Finance expense	1,193	1,319
	<hr/>	<hr/>
	755	771

##### Expense recognised in other comprehensive income

	31 March 2016 £000	31 March 2015 £000
Actuarial (gains)/losses on defined benefit pension plans	(1,767)	4,228
Tax recognised on expenses recognised directly in equity	228	(919)
	<hr/>	<hr/>
Total	1,539	3,309

## Notes (continued)

### 15 Employee benefits (continued)

#### Pension plans (continued)

At 31 March 2016 the cumulative amount of actuarial losses recognised in equity is £14,709,000. (2015: £16,476,000).

The fair value of the plan assets were as follows:

	31 March 2016 Fair value £000	31 March 2016 %	31 March 2015 Fair value £000	31 March 2015 %
Equities	13,815	66	13,628	65
Corporate bonds	2,512	12	2,346	11
Property	2,302	11	1,818	9
Other	2,302	11	3,049	15
	<u>20,931</u>		<u>20,841</u>	
Expected return on plan assets	<u>6.1%</u>		<u>5.7%</u>	

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	31 March 2016 %	31 March 2015 %
Discount rate	3.40	3.30
Expected rate of return on plan assets	6.10	5.70
Future salary increases	3.00	3.10
Rate of increase in pensions in payment	2.80	3.10
Inflation assumption	<u>3.00</u>	<u>3.10</u>

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2016 would have increased by £760,000 (2.2%) before deferred tax.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.9 years (male), 25.3 years (female).
- Future retiree upon reaching 65: 22.9 years (male), 25.3 years (female).

## Notes (continued)

### 15 Employee benefits (continued)

#### Pension plans (continued)

##### History of plans

The history of the plans for the current and prior periods is as follows:

##### Balance sheet

	31 March 2016 £000	31 March 2015 £000	31 March 2014 £000	31 March 2013 £000	31 December 2012 £000
Present value of the defined benefit obligation	(34,545)	(36,226)	(29,970)	(28,226)	(21,650)
Fair value of plan assets	20,931	20,841	18,811	17,458	13,840
Deficit	(13,614)	(15,385)	(11,159)	(10,768)	(7,810)

##### Experience adjustments

	31 March 2016 %	31 March 2015 %	31 March 2014 %	31 March 2013 %	31 December 2012 %
Experience adjustments on plan liabilities as a percentage of plan liabilities	6.3	15.0	3.7	8.1	14.9
Experience adjustments on plan assets as a percentage of plan assets	(4.4)	4.0	0.9	(8.4)	(11.4)

The company expects to contribute approximately £428,000 to its defined benefit plan in the next financial year.

### 16 Provisions

	31 March 2016 £000	31 March 2015 £000
<b>Contract provisions</b>		
Balance at 1 April	713	929
Provisions made during the period	1,356	1,080
Provisions used during the period	(872)	(467)
Provisions reversed during the period	(413)	(829)
<b>Balance at 31 March</b>	<b>784</b>	<b>713</b>
Non-current	220	368
Current	564	345
	<b>784</b>	<b>713</b>

Provisions included above are Installation, Training and Warranty costs. Most provisions are expected to be utilised in 2016/17 apart from some of the warranty provisions which extend into 2017 and 2018. There are no significant uncertainties regarding the timing and amount of future cash outflows.



**Notes** *(continued)*

**17 Share capital**

**Reconciliation of movement in capital**

	Number of shares, allotted, called up and fully paid £	Share capital £000
Balance at 1 April 2014 and 31 March 2015	<u>31,760,000</u>	<u>31,760</u>
Balance at 1 April 2015 and 31 March 2016	<u>31,760,000</u>	<u>31,760</u>

The authorised share capital of the company is £31,800,000 (2015: £31,800,000) shares of £1 each.

## Notes (continued)

### 18 Financial instruments

It is not the Company's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Company other than short term debtors and creditors are used to fund its operations and comprise cash and overdrafts.

#### *Credit risk*

The Company's principal financial assets are cash and receivables. Credit risk is primarily attributable to the receivables. Receivables are reviewed on a regular basis in order to assess levels of specific allowance for doubtful debts. Note 12 highlights the split of receivables between related and third parties as well as the allowance carried forward. The directors consider there to be no significant risk to receivables outside of the allowance disclosed.

The ageing profile of third party debtors in the current and prior year is shown below:

	31 March 2016	31 March 2015
	£000	£000
0-30 days	4,626	5,601
31-60 days – past due not impaired	51	82
Over 60 days – past due not impaired	245	682
<b>Total third party receivables</b>	<b>4,922</b>	<b>6,365</b>

The other asset classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned in note 12. The company does not hold any collateral as security.

#### *Liquidity and interest rate risk*

Bank borrowing and loans are administered through Kratos Group Plc which acts as lender/depositor for the Company. Funds/overdrafts are swept into the Kratos Group Plc bank account each evening in order to minimise exposure to overdrawn balances. In the event of surplus currency funds occurring in the Company these are put on deposit for short term periods in order to maximise interest receivable.

## Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are re-priced.

[illegible]

## Notes (continued)

### 18 Financial instruments (continued)

#### Foreign currency risk

The company transacts business in foreign currencies, especially US Dollars, Euro and Japanese Yen and therefore incurs some transaction risk particularly where the lead time from order to delivery and final payment can be up to 1 year. With the Japanese Yen, receipts can be hedged against purchases from Japan so exposure is not so significant. With the US Dollar and Euro some exposure is averted by securing deposits with order and through purchases in these currencies, but generally the Group has surplus currency.

Hedging this position would be expensive given the uncertain timing of receipts so no such hedging policy is in place. The company does maintain bank accounts so is able to sell currencies at the optimum time.

The company does not hedge the impact of exchange rate movements arising on consolidation on translation of the Statement of comprehensive income.

The company had no foreign exchange contracts at 31 March 2016 or at 31 March 2015.

The company exposure to foreign currency risk was as follows

	31 March 2016	31 March 2016	31 March 2016	31 March 2015	31 March 2015	31 March 2015
	US \$	Euro	Yen	US \$	Euro	Yen
	£000	£000	£000	£000	£000	£000
Trade Receivables	2,999	213	-	2,428	608	-
Cash	172	122	-	29	73	-
Trade Payables	(174)	(231)	(457)	(75)	(427)	(542)
Net exposure	<u>2,997</u>	<u>104</u>	<u>(457)</u>	<u>2,382</u>	<u>254</u>	<u>(542)</u>

#### Capital risk management

The Board maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

#### Sensitivity analysis

In managing interest rate and currency risks the company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on earnings.

It is estimated that a general increase of one percentage point in the value of the GBP against other foreign currencies would have decreased the Company's profit before tax by approximately £26,000 for the year ended 31 March 2016 (2015: £21,000).

At 31 March 2016, it is estimated that a general increase of one percentage point in interest rates would increase the Company's profit before tax by approximately £3,000 (2015: £1,000).

## Notes (continued)

### 18 Financial instruments (continued)

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 31 March 2016 £000	Fair value 31 March 2016 £000	Carrying amount 31 March 2015 £000	Fair value 31 March 2015 £000
Trade and other receivables	11,401	11,401	10,958	10,958
Cash and cash equivalents	307	307	102	102
Trade and other payables	(6,987)	(6,987)	(10,485)	(10,485)
	<u>4,721</u>	<u>4,721</u>	<u>575</u>	<u>575</u>
Unrecognised (losses) / gains	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The determination of fair value affects only trade and other receivables and these values have been assessed through the receivables review.

### 19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 March 2016 £000	31 March 2015 £000
Less than one year	18	19
Between one and five years	19	21
More than five years	-	-
	<u>37</u>	<u>40</u>

During the year £19,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2015: £28,000).

## Notes (continued)

### 20 Related parties

Kratos sells analytical instruments and services to Kratos Analytical Inc. and also to other members of its ultimate parent Shimadzu Corporation.

The compensation of key management personnel (including the directors) is as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Key management emoluments including social security costs	573	545
Other post employment benefits	57	35
	<u>630</u>	<u>580</u>

#### Other related party transactions

	Sales to year ended 31 March 2016 £000	Sales to year ended 31 March 2015 £000	Materials & expenses incurred from year ended 31 March 2016 £000	Materials & expenses incurred from year ended 31 March 2015 restated £000
Companies within Kratos Group plc	1,506	1,894	291	303
Companies within the Shimadzu Corporation group	10,650	8,866	1,143	1,141
	<u>12,156</u>	<u>10,760</u>	<u>1,434</u>	<u>1,444</u>

The disclosure of materials & expenses incurred from Kratos Group plc and from companies within the Shimadzu Corporation group for year ended 31 March 2015 were over stated by £644,000 and £3,854,000, respectively. The disclosure has been corrected in the comparative amounts reported. The restatement has no effect on the information in the statement of financial position at the beginning of the comparative period and as such no opening balance sheet has been presented.

	Receivables outstanding 31 March 2016 £000	Receivables outstanding 31 March 2015 £000	Payables outstanding 31 March 2016 £000	Payables outstanding 31 March 2015 £000
Parent company – Kratos Group plc	-	-	1,674	4,914
Companies within Kratos Group plc	2,630	2,097	128	70
Companies within the Shimadzu Corporation group	3,095	1,879	515	530
	<u>5,725</u>	<u>3,976</u>	<u>2,317</u>	<u>5,514</u>

The above transactions were made on the same terms as equivalent transactions with unrelated parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

## Notes (continued)

### 21 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Kratos Group Plc registered in England and Wales.

The largest group in which the results of the company are incorporated is that headed by Shimadzu Corporation, the ultimate parent company, incorporated in Japan. The smallest group in which the accounts are consolidated are those of Kratos Group Plc. The consolidated accounts of these groups are available to the public and may be obtained from the Company Secretary at the registered office which is shown on page 2.

### 22 Accounting estimates and judgements

#### *Spare parts provision*

The company holds a significant amount of spare parts inventory to provide ongoing support to customers. Due to the nature of the business some of these items can be held for a number of years before they are sold. The company makes provisions against spare parts based on their ageing profile. The methodology used is consistent with prior years.

#### *Employee benefits*

The defined benefit scheme is accounted for in accordance with the advice of an independent qualified actuary but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and mortality that underpin their valuations. See note 15 for details of the assumptions used in calculating the pension scheme deficit.

#### *Recovery of receivables*

The company reviews overdue trade debtors on a regular basis and make provisions against those balances considered most at risk.

#### *Warranty provisions*

The company calculates warranty provisions for each machine sold on a contract by contract basis and releases over the life of the warranty. The group also reviews the actual costs incurred under warranties against the amounts provided.

#### *Useful lives and residual values of property, plant and equipment*

The directors review the estimated useful lives of property, plant and equipment at the end of each annual accounting period. During the financial year the directors determined that the useful lives and residual values previously estimated are still appropriate.