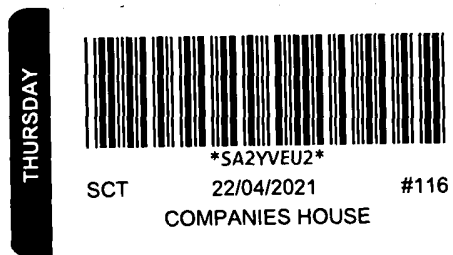


KELVIN NANOTECHNOLOGY LIMITED

REPORT AND FINANCIAL STATEMENTS

Year ended 31 July 2020



Registered in Scotland
Company Registration Number SC173061

Kelvin Nanotechnology Limited

REPORT AND FINANCIAL STATEMENTS for the year ended 31 July 2020

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Kelvin Nanotechnology Limited

COMPANY INFORMATION

Directors Steven Beaumont OBE (resigned 20 May 2020)
Dr Neil Bowering (appointed 20 May 2020)
Brendan Casey (resigned 20 May 2020)
Prof David RS Cumming
Bonnie Dean (appointed 20 May 2020)
Elizabeth Graham (appointed 20 May 2020)
John Lumsden CBE (resigned 20 May 2020)
Prof John Marsh (appointed 20 May 2020)
Gordon Mills (resigned 20 May 2020)

Auditors Ernst & Young LLP
5 George Square
Glasgow
G2 1DY

Bankers HSBC Bank Plc
Glasgow City Office
2 Buchanan Street
Glasgow
G1 3LB

Registered Office 70 Oakfield Avenue
Glasgow
G12 8LS

Company Number SC173061

Kelvin Nanotechnology Limited

DIRECTORS' REPORT

The directors present their report and financial statements for Kelvin Nanotechnology Limited (the "Company") for the year ended 31st July 2020.

RESULTS AND DIVIDENDS

The Company made a profit for the financial year of £134,956 (2019: loss £593,881). The profit this financial year is wholly attributable to the movement on the USS pension provision booked to the accounts, without which the company would have posted a loss of £81,757 (2019: loss £220,390). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITIES

The Company's principal activity is the provision of advanced components and nanofabrication services for the datacoms, telecoms, photonics and quantum technology market places.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

For the 2019-20 financial year the directors can report that the Company has made a profit for the financial year of £134,956 (2019 loss: £593,881).

The Company's turnover for the year was £1,712,370 [2019: £1,482,131], which is an increase of £230k or +15.5%, of this government funding from the Job Retention Scheme (the 'furlough' scheme) amounted to £91,196. After adjusting to remove this income turnover was up by £139,043 or +9.4%.

Turnover in the eight months to end February 2020 was £1,026,012, up by £115,548 or +12.7%, however after the closure of the Company's manufacturing facility on 23 March, in accordance with Scottish Government requirements, there followed a substantial fall in the level of activity, with turnover for the final five months of the year being only £595,162.

Consequently, the Company's performance for the full year fell below budgeted expectations.

The Company participates in the Universities Superannuation Scheme [USS] and after the finalisation of the 2018 actuarial valuation, which took place during the year, the Company has recognised a credit of £216,713; a reduction of the carrying amount of its pension provision.

Looking ahead the directors forecast that the Company will make a profit in 2020-21 and will maintain a positive net cash position throughout the year.

In the event of a further prolonged lockdown being imposed the directors believe that the Company has a reasonable expectation of being able to continue operating its manufacturing facility at its existing restricted level.

The directors are satisfied with the performance of the Company during the year given the challenging environment and have no plans to change its principal activity.

DIRECTORS

The directors during the year and at the date of this report are shown on page 2.

POST BALANCE SHEET EVENTS

As the balance sheet date of 31 July 2020 was subsequent to the start of the Covid-19 lockdown period, the emergence of Covid-19 is not a post balance sheet event, and the impact on the financial performance in the year and yearend balance sheet position has been accounted for in these financial statements. The potential impact from developments after the 31 July 2020 year end have been considered accordingly for disclosure in the financial statements. From our assessment of these developments we have not identified any adjusting post balance sheet events.

Kelvin Nanotechnology Limited

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each of the Directors at the time the report is approved are aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditors, subject to approval by the Company's Directors.

GOING CONCERN

The Company's principal operations together with the factors likely to affect its future development and its financial position are noted above. The Company has financial resources and access to funding. Consequently, the Company is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

SPECIAL PROVISIONS RELATING TO SMALL COMPANIES

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (S.I. 2015/980) and with the Financial Reporting Standard 102 Section 1A Small Entities.

By order of the Board



Bonnie Dean, Director
25 November 2020

Registration Number SC173061

Kelvin Nanotechnology Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing 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 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

The directors follow the Corporate Governance Procedures of the University of Glasgow as detailed in the financial statements of the University. The financial statements of Kelvin Nanotechnology Limited are also presented to the University Court of the University of Glasgow.

Kelvin Nanotechnology Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELVIN NANOTECHNOLOGY LIMITED for the year ended 31 July 2020

Opinion

We have audited the financial statements of Kelvin Nanotechnology Limited (the 'company') for the year ended 31 July 2020 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 July 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the provisions available for small entities, in the circumstances set out in note 1 to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We draw attention to Note 1 in the financial statements, which describes the financial and operational consequences the Company is facing as a result of Covid-19 which is impacting the financial and operational position and performance during 2020/21 and beyond. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Kelvin Nanotechnology Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELVIN NANOTECHNOLOGY LIMITED for the year ended 31 July 2020

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

Kelvin Nanotechnology Limited

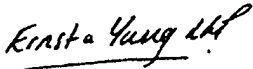
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELVIN NANOTECHNOLOGY LIMITED for the year ended 31 July 2020

audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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



Stephen Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
Date: 25 November 2020

Kelvin Nanotechnology Limited

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 July 2020

	Note	2020 £	2019 £
TURNOVER	2	1,712,370	1,482,131
Cost of sales		<u>(413,175)</u>	<u>(349,197)</u>
GROSS PROFIT		1,299,195	1,132,934
Staff costs	5	(1,215,458)	(1,179,341)
Movement on USS provision		216,713	(373,491)
Administrative expenses		(185,458)	(225,472)
Interest receivable		<u>1,436</u>	<u>496</u>
PROFIT/(LOSS) BEFORE TAXATION	3	116,428	(644,874)
Taxation on profit/(loss)	4	18,528	50,993
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>134,956</u>	<u>(593,881)</u>

All amounts relate to continuing activities.

The company has no recognised gains and losses other than those reported above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 12 to 19 form part of these financial statements.

Kelvin Nanotechnology Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 July 2020

	Share capital £	Pension reserve £	Profit & loss reserve £	Total £
Balance at 1 August 2018	250,002	(211,522)	264,441	302,921
Loss from the income statement	-	(373,491)	(220,390)	(593,881)
Gift aid distribution	-	-	(7,773)	(7,773)
Balance at 1 August 2019	250,002	(585,013)	36,278	(298,733)
Profit/(Loss) from the income statement	-	216,713	(81,757)	134,956
Balance at 31 July 2020	250,002	(368,300)	(45,479)	(163,777)

Kelvin Nanotechnology Limited

BALANCE SHEET at 31 July 2020

	Note	2020 £	2019 £
FIXED ASSETS			
Tangible assets	6	17,724	26,882
CURRENT ASSETS			
Stocks	7	42,588	69,286
Debtors	8	421,099	329,591
Cash at bank and in hand		363,112	294,655
		<u>826,799</u>	<u>693,532</u>
CREDITORS: amounts falling due within one year	9	<u>(640,000)</u>	<u>(434,134)</u>
NET CURRENT ASSETS		186,799	259,398
NET ASSETS EXCLUDING PENSION LIABILITY		<u>204,523</u>	<u>286,280</u>
Pension liability	10	(368,300)	(585,013)
NET LIABILITIES		<u>(163,777)</u>	<u>(298,733)</u>
CAPITAL AND RESERVES			
Share capital	11	250,002	250,002
Pension reserve		(368,300)	(585,013)
Profit and loss reserve		(45,479)	36,278
EQUITY SHAREHOLDER'S DEFICIT		<u>(163,777)</u>	<u>(298,733)</u>

The financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (S.I. 2015/980) and with the Financial Reporting Standard 102 Section 1A Small Entities.

Approved by the Board of Directors on 25 November 2020



Bonnie Dean, Director

Company Registration Number SC173061

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2020

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently through the current year.

(a) Statement of compliance

Kelvin Nanotechnology Limited is a limited liability company incorporated in Scotland. The registered office is 70 Oakfield Avenue, Glasgow, G12 8LS. The financial statements have been prepared in compliance with Financial Reporting Standard 102 (FRS 102) as it applies to the financial statements of the company for the year ended 31 July 2020. We have assessed the impact of all changes to FRS102, as a result of the triennial review, on our accounting policies and ensured these have been implemented.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (S.I. 2015/980) and with the Financial Reporting Standard 102 Section 1A Small Entities.

The Company's principal operations, together with the factors likely to affect its future development and its financial position are noted in the Directors' Report.

(c) Going concern

At 31 July 2020 the Company held cash and cash equivalents of £363,112, while net current assets were £186,799 and there were no external borrowings. Subsequent to the year-end the Company at 31 October 2020 held cash and cash equivalents of £419,112 and had no further borrowing in place.

The Company has reviewed its' financial forecasts to November 2021 and is forecasting that its' cash and cash equivalents will be £501k at the end of this period, and no lower than £289k at the lowest point of the going concern period. The Company is thus satisfied that it can meet its commitments and obligations for at least the next twelve months from the date of the signing of this report, including under any plausible worst case scenario for the Company's future financial performance during this period, and that there are no material risks or uncertainties around the future financial forecast for this period.

The Company's regular operational activities were adversely impacted during the latter stages of 2019-20 by the Covid-19 outbreak and consequent lock down with the manufacturing facility being closed and production ceasing on 23 March and not recommencing, on a restricted basis, until 26 May. The reopening took place on a phased basis, with the facility not opening to researchers until the week commencing 6 July when the current restricted access model was implemented. The Company will continue to monitor the impact of Covid-19 on its operations and has plans in place to maintain operations on the current more restricted basis for the foreseeable future.

Accordingly, the Company has concluded that it is correct to retain the going concern basis in preparing the financial statements.

(d) Tangible assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is charged to allocate the cost of assets, less their residual value, over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows:

- Computer & office equipment – 4 years
- Plant & machinery – 4 years

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (CO for the year ended 31 July 2020

(e) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

(f) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. However, deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(g) Income recognition

Income from the sale of goods or rendering of services is credited to the Statement of Comprehensive Income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

(h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet include cash at bank and on hand.

(i) Short-term debtors and creditors

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

2. TURNOVER

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the year.

3. PROFIT/(LOSS) BEFORE TAXATION

This is stated after charging:

	2020	2019
	£	£
Depreciation	14,174	14,217
Loss on disposal	356	173
Auditor's remuneration - audit services	2,800	2,062

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2020

4. TAXATION ON PROFIT/(LOSS)

a) Factors affecting current tax charge

The tax assessed on the profit/(loss) before taxation for the year is higher from that of the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020	2019
	£	£
Profit/(loss) before taxation	116,428	(644,874)
Profit/(loss) before taxation multiplied by standard rate of corporation tax of 19% (2019: 19%)	22,121	(122,526)
Effects of:		
- Disallowed expenditure	(40,121)	72,118
- Depreciation	2,693	2,701
- Tax allowances	(1,021)	(2,949)
- Loss on disposal	68	33
- Trading losses utilised	-	-
- Trading losses carried forward	16,260	50,623
Current tax	-	-
Tax credit	-	-
Total current tax position	-	-
	£	£
Deferred tax:		
- Origination and reversal of timing differences	(18,528)	(50,993)
Overall tax position	(18,528)	(50,993)

b) Factors that may affect future tax charges

There are no factors which are likely to affect the future tax charges.

5. STAFF COSTS

	2020	2019
	£	£
Wages and salaries	937,016	911,019
Social security costs	103,181	111,095
Movement on USS provision	(226,190)	368,816
Other pension costs	175,261	157,227
	<u>989,268</u>	<u>1,548,157</u>

The average number of employees during the year was 19 (2019:20).

Key management personnel include all directors who together have authority and responsibility for planning, directing and controlling the activities of the Company. Included within staff costs is directors' remuneration in respect of two of the directors for their qualifying services to the Company during the year of £212,060 (2019: £253,976), the other directors do not receive any remuneration.

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2020

6. TANGIBLE FIXED ASSETS

	Computer & office equipment £	Plant & machinery £	Total £
<i>Cost:</i>			
At 1 August 2019	59,113	16,981	76,094
Additions	5,372	-	5,372
Disposals	(2,500)	-	(2,500)
At 31 July 2020	<u>61,985</u>	<u>16,981</u>	<u>78,966</u>
<i>Depreciation:</i>			
At 1 August 2019	41,155	8,057	49,212
Charge for year	9,929	4,245	14,174
Disposals	(2,144)	-	(2,144)
At 31 July 2020	<u>48,940</u>	<u>12,302</u>	<u>61,242</u>
<i>Net Book Value:</i>			
At 31 July 2020	<u>13,045</u>	<u>4,679</u>	<u>17,724</u>
At 31 July 2019	<u>17,958</u>	<u>8,924</u>	<u>26,882</u>

7. STOCKS

	2020 £	2019 £
Raw materials	<u>42,588</u>	<u>69,286</u>

8. DEBTORS

	2020 £	2019 £
Due from ultimate parent undertaking	36,921	83,083
Trade debtors	166,919	126,126
Other debtors	67,655	49,127
Prepayments and accrued income	149,604	71,255
	<u>421,099</u>	<u>329,591</u>

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2020

9. CREDITORS: amounts falling due within one year

	2020	2019
	£	£
Due to ultimate parent undertaking	457,596	364,405
Trade creditors	5,602	15,110
Other taxes and social security costs	62,585	9,316
Accruals	114,217	45,303
	<u>640,000</u>	<u>434,134</u>

10. PENSION DEFICIT RECOVERY POSITION

The Company participates in the Universities Superannuation Scheme (USS) and has recognised a provision for the present value of the deficit reduction plan for the scheme.

	2020	2019
	£	£
At beginning of the year	585,013	211,522
Utilised in the year	(14,074)	(11,874)
Additions/revaluation in the period	(212,116)	380,690
Unwinding of the discount rate	9,477	4,675
USS deficit reduction plan provision at 31 July	<u>368,300</u>	<u>585,013</u>

Members of the USS scheme give-up a portion of their contractual gross pay equal to their employees' pension contribution as a part of a HMRC approved salary sacrifice scheme, members may opt out of this scheme if they so wish. No charges to staff pensionable salaries or total pension scheme contributions arise from this arrangement. The figures within note 5 to the financial statements reflect both the reduced gross pay earned by staff and the increased employer contributions under this arrangement.

The total pension costs shown above and in note 5 reflect the increased employer contributions under this arrangement.

The Universities Superannuation Scheme (USS) is a UK-wide scheme which throughout preceding periods was a defined benefit only pension scheme. With effect from 1st October 2016, the scheme changed from defined benefit only to a hybrid pension scheme, providing defined benefits (for all members) as well as defined contribution benefits.

The assets of the Scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the Schemes' assets are not hypothecated to individual organisations and a scheme-wide contribution rate is set. The Company is therefore exposed to actuarial risks associated with other organisations' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as is required by Section 28 of FRS 102, "Employee Benefits", accounts for the scheme as a defined contribution scheme.

As a result, the amount charged to the Statement of Comprehensive Income in respect of the above, represents the contributions payable to the Scheme in the year.

On conversion to FRS 102, the Company has recognised a provision for the present value of the deficit reduction plan for the USS scheme. The discount rate used by the Company to calculate the provision was 0.74% in 2020 (2019: 1.62%). The Company is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the Company's employees, this percentage was 19.5% to 30 September 2019 and 21.1% from 1 October 2019 (2019: 18% to 31 March 2019 and 19.5% from 1 April 2019).

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2020

PENSION DEFICIT RECOVERY POSITION (continued)

The total USS pension cost for the Company was £175k (2019: £157k). This includes £15k (2019: £14k) of outstanding contributions at the balance sheet date.

The latest available full actuarial valuation of the Scheme was at 31 March 2018 (the valuation date), which was carried out using the projected unity method. Since the Company cannot identify its share of Scheme's assets and liabilities, the following disclosures reflect those relevant for the Scheme as a whole.

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme was at 31 March 2018 ("the valuation date"), which was carried out using the projected unit method. The 31 March 2020 actuarial valuation is in progress and consultation is currently taking place. This is scheduled to be finalised by May 2021 in order to meet the June 2021 filing deadline.

The 2018 valuation was the fifth valuation for the Scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the Scheme was £63.7 billion and the value of the Scheme's technical provisions was £67.3 billion, indicating a shortfall of £3.6 billion and a funding ratio of 95%.

Since the year-end, following the completion of the 2018 actuarial valuation, which indicated a shortfall of

The key financial assumptions used in the 2018 valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI + 0.14% reducing linearly to CPI – 0.73% Years 11-20: CPI + 2.52% reducing linearly to CPI + 1.55% by year 21 Years 21 +: CPI + 1.55%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on analysis of the scheme's experience carried out as part of the 2018 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2020	2019
Mortality base table	<u>Pre-retirement:</u> 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.	<u>Pre-retirement:</u> 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.
Mortality base table	<u>Post-retirement:</u> 97.6% of SAPS S1NMA "light" for males and 102.7% of RFV00 for females.	<u>Post-retirement:</u> 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.
Future improvements to mortality	CMI_2017 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females.	CMI_2016 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females.

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2020

PENSION DEFICIT RECOVERY POSITION (continued)

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2017 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% for males and 1.6% for females. The current life expectancies on retirement at age 65 are:

	2020	2019
Males currently aged 65 (years)	24.4	24.6
Females currently aged 65 (years)	25.9	26.1
Males currently aged 45 (years)	26.3	26.6
Females currently aged 45 (years)	27.7	27.9
Existing benefits		
Scheme assets	£66.5bn	£67.4bn
Total scheme liabilities	£79.7bn	£79.2bn
FRS 102 total scheme deficit	£13.2bn	£11.8bn
FRS 102 total funding level	83%	85%

A new deficit recovery plan was put in place as part of the 2018 valuation, which requires payment of 2% of salaries over the period 1 October 2019 to 30 September 2021 at which point the rate will increase to 6%, until 31 March 2028. The 2020 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2020	2019
Discount rate	2.59%	2.44%
Pensionable salary growth	4.2%	2.11%

In the year ended 31 July 2019, the liability was based on the previous deficit recovery plan, which required payment of 5% of salaries over the period 1 April 2020 to 30 June 2034.

A further full valuation as at 31 March 2020 is currently underway. As the valuation has only recently commenced work is still in progress on agreeing the technical provisions assumptions, the extent of future investment risk, the duration of the deficit period and the level of deficit contributions

Rule changes in respect of strengthening the employer covenant are also under consideration including restrictions on employer exits, debt monitoring and pari passu arrangements. The valuation must be completed by 30 June 2021. The Scheme Trustee has indicated that there could be a significant increase in the deficit provision as at 31 July 2021 and consequently of contribution levels.

11. SHARE CAPITAL

	2020	2019
	£	£
Allotted, called-up and fully paid:		
Equity interests: 250,002 ordinary shares of £1 each	<u>250,002</u>	<u>250,002</u>

12. ULTIMATE PARENT UNDERTAKING

The directors consider that the University Court of the University of Glasgow, a body corporate created under the Universities (Scotland) Act 1889, is the Company's ultimate parent undertaking. The Company's parent undertaking is G U Holdings Limited, a company incorporated in Scotland.

The Company has taken advantage of the exemption in FRS 102 Section 1AC.35, not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2020

ULTIMATE PARENT UNDERTAKING (continued)

are party to the transactions are wholly owned by the ultimate parent undertaking. The Company has not transacted with any other related parties in the year.

Copies of the consolidated financial statements of the University of Glasgow can be obtained at the Finance Office, University of Glasgow, G12 8QQ.

13. IMPACT OF COVID-19 OUTBREAK ON THE COMPANY'S OPERATIONS

On 31 January 2020, the World Health Organisation ("WHO") declared the novel coronavirus ("Covid-19") outbreak a global health emergency.

In response to the pandemic, the United Kingdom announced on 23 March a stringent set of preventative measures, collectively called "lockdown" to be applied from midnight with 3 weekly reviews to be undertaken. Full lockdown restrictions continued until 29 June in Scotland when a phased easing of restrictions began. Except for those providing essential services, all business activities were forced to suspend physical trading during lockdown.

The Company's regular operational activities were adversely impacted during the latter stages of 2019-20 by these events with the manufacturing facility being closed and production ceasing on 23 March and not recommencing, on a restricted basis, until 26 May. The reopening took place on a phased basis, with the facility not opening to researchers until the week commencing 6 July, when the current restricted access model was implemented.

The Company will continue to monitor the impact of Covid-19 on its operations and has plans in place to maintain operations on the current more restricted basis for the foreseeable future.