

KELVIN NANOTECHNOLOGY LIMITED

REPORT AND FINANCIAL STATEMENTS

Year ended 31 July 2021

Registered in Scotland
Company Registration Number SC173061



Kelvin Nanotechnology Limited

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 July 2021

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Kelvin Nanotechnology Limited

COMPANY INFORMATION

Directors	Dr Neil Bowering Prof David RS Cumming Bonnie Dean Elizabeth Graham Prof John Marsh
Auditor	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 2021.

RESULTS AND DIVIDENDS

The Company made a loss for the financial year of £111,335 (2020: profit £134,956). No dividend was paid in the year to 31 July 2021 and the directors do not recommend the payment of a dividend going forward.

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 2020-21 financial year the Company has reported a loss for the financial year of £111,335 (2020 profit: £134,956).

The outcome reported has been driven by two significant events; a reduction in turnover due to a significant loss in production that arose from availability to the company's manufacturing facility and a credit arising from the year-on-year reduction in the pension provision recognised in respect of the Superannuation Scheme used by the Company, USS.

The Company's turnover for the year was £1,552,038 (2020: £1,621,174), which is a decrease of £69,136 (4%). This decrease in turnover is due to reduced availability at the manufacturing facility to account for social distancing in accordance with Scottish Government requirements. The facility put a booking system in place and access was limited.

The Company participates in the Universities Superannuation Scheme (USS) and mainly due to a reduction in staff both in year and proposed future reduction, the Company has recognised a credit of £96,399 (2020 - £216,713); a further reduction of the carrying amount of its pension provision.

Looking ahead the directors forecast that the Company will make a profit in 2021-22 as the manufacturing facility has removed the requirement to book slots and full access recommenced. Only under extreme periods of restrictions relating to Covid should there be an interruption to production and therefore they will maintain a positive net cash position throughout the year.

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.

EVENTS AFTER THE REPORTING PERIOD

There were no adjusting events after the reporting period.

The 2020 actuarial valuation of the Universities Superannuation Scheme was agreed subsequent to the year end. The provision for the obligation to fund the deficit on the Scheme is impacted by whether a Benefit Change Deed is entered into by 28 February 2022.

As explained in note 13 of the financial statements, this is considered a non-adjusting event after the reporting period.

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 auditor. The Company's Directors will confirm the auditors for the next financial year in early 2022.

Kelvin Nanotechnology Limited

DIRECTORS' REPORT

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 received a letter of support from its parent undertaking, University of Glasgow, for the period of 12 months from the date of approval of these financial statements. Consequently, the Company is well placed to manage its business risks successfully. The directors are confident that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they

have concluded that it is correct to retain the going concern basis in preparing the financial statements. More information is provided in note 1 to 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. In particular, under these provisions the directors are exempt from the requirement to prepare a Strategic Report.

By order of the Board



Bonnie Dean, Director
30 November 2021

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 2021

Opinion

We have audited the financial statements of Kelvin Nanotechnology Limited (the 'company') for the year ended 31 July 2021 which comprise the Statement of Comprehensive Income, 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 2021 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 themselves. 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.

Kelvin Nanotechnology Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELVIN NANOTECHNOLOGY LIMITED for the year ended 31 July 2021

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; or
- 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 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Kelvin Nanotechnology Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELVIN NANOTECHNOLOGY LIMITED for the year ended 31 July 2021


Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 102 and Companies Act 2006) and the relevant tax compliance regulations in the UK and Ireland;
- We understood how Kelvin Nanotechnology Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquires through our review of the board minutes and papers provided to the Audit Committee at a University level, as well as consideration of the results of our audit procedures to either corroborate or provide contrary evidence which was then followed up;
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings. Where this risk was considered higher, we performed audit procedures to address the risk of fraud and management override. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management, those charged with governance and those responsible for legal and compliance procedures; journal entry testing with a focus on journals indicating large or unusual transactions based on our understanding of the business and a review of board minutes to identify any non-compliance with laws and regulations.

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
30 November 2021

Kelvin Nanotechnology Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2021

	Note	2021 £	2020 £
TURNOVER	2	1,552,038	1,621,174
Cost of sales		<u>(1,098,029)</u>	<u>(1,111,581)</u>
GROSS PROFIT		454,009	509,593
Other income		50,987	91,196
Movement on USS provision	5	96,399	216,713
Administrative expenses		(645,253)	(702,510)
Interest receivable		<u>178</u>	<u>1,436</u>
(LOSS) / PROFIT BEFORE TAXATION	3	(43,680)	116,428
Taxation on (loss) / profit	4	(67,655)	18,528
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		<u>(111,335)</u>	<u>134,956</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 20 form part of these financial statements.

Kelvin Nanotechnology Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 July 2021

	Share capital £	Pension reserve £	Profit & loss reserve £	Total £
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 1 August 2020	250,002	(368,300)	(45,479)	(163,777)
Profit/(Loss) from the income statement	-	96,399	(207,734)	(111,335)
Balance at 31 July 2021	250,002	(271,901)	(253,213)	(275,112)

Kelvin Nanotechnology Limited

BALANCE SHEET

at 31 July 2021

	Note	2021 £	2020 £
FIXED ASSETS			
Tangible assets	6	10,326	17,724
CURRENT ASSETS			
Stocks	7	45,553	42,588
Debtors	8	409,554	421,099
Cash at bank and in hand		69,728	363,112
		<u>524,835</u>	<u>826,799</u>
CREDITORS: amounts falling due within one year	9	<u>(538,372)</u>	<u>(640,000)</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(13,537)</u>	<u>186,799</u>
NET (LIABILITIES) / ASSETS EXCLUDING PENSION LIABILITY		<u>(3,211)</u>	<u>204,523</u>
Pension liability	10	(271,901)	(368,300)
NET LIABILITIES		<u>(275,112)</u>	<u>(163,777)</u>
CAPITAL AND RESERVES			
Share capital	11	250,002	250,002
Pension reserve		(271,901)	(368,300)
Profit and loss reserve		(253,213)	(45,479)
EQUITY SHAREHOLDERS' DEFICIT		<u>(275,112)</u>	<u>(163,777)</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 30 November 2021



Bonnie Dean, Director

Company Registration Number SC173061

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2021

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 2021.

(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 2021 the Company had net liabilities of £275,112 (2020: £163,777) and held cash and cash equivalents of £69,728 (2020: £363,112) There were no external borrowings. The company has also received a letter of support from its parent undertaking, University of Glasgow, for the period of 12 months from the date of approval of these financial statements. In this letter, the parent undertaking has provided comfort in respect of the provision of financial support to assist the Company in meeting its liabilities as and when they fall due, to the extent that the Company has no cash otherwise available to it to meet such liabilities. Subsequent to the year-end the Company held cash and cash equivalents of £121,000 at 31 October 2021 and continued to have no external borrowings.

The Company has reviewed its' financial forecasts to November 2022, being the going concern assessment period of at least 12 months from the date of approval of these financial statements and is forecasting that its' cash and cash equivalents will be £175k at the end of this period, and no lower than £108k at the lowest point of the going concern assessment period. The Company is thus satisfied that it can meet its commitments and obligations for a period of at least the next twelve months from the date of the approval of this report, to November 2022, 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 throughout the year to 31 July 2021 by the booking system that was in place at the manufacturing facility in accordance with Scottish Government guidelines. The Company will continue to monitor the impact of Covid-19 on its operations and as the booking system has now been removed, full access has been granted and the company will be able to maintain operations on the current basis for the foreseeable future. These assumptions have been used when preparing the forecasted budget and cashflow for the going concern period.

(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

for the year ended 31 July 2021

1. ACCOUNTING POLICES (continued)

(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 Statement of Comprehensive Income 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. (LOSS) / PROFIT BEFORE TAXATION

This is stated after charging:

	2021	2020
	£	£
Depreciation	11,399	14,174
Loss on disposal	-	356
Auditor's remuneration - audit services	6,120	2,800

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2021

4. TAXATION ON (LOSS) / PROFIT

a) Factors affecting current tax charge

The tax assessed on the (loss) / profit before taxation for the year is higher from that of the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

	2021	2020
	£	£
(Loss) / profit before taxation	(43,680)	116,428
(Loss) / profit before taxation multiplied by standard rate of corporation tax of 19% (2020: 19%)	(8,299)	22,121
Effects of:		
- Disallowed expenditure	(17,149)	(40,121)
- Depreciation	2,166	2,693
- Tax allowances	-	(1,021)
- Loss on disposal	-	68
- Trading losses carried forward	23,282	16,260
Current tax	-	-
Tax credit	-	-
Total current tax position	-	-
	£	£
Deferred tax:		
- Origination and reversal of timing differences	67,655	(18,528)
Overall tax position	67,655	(18,528)

b) Factors that may affect future tax charges

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

5. STAFF COSTS

	2021	2020
	£	£
Wages and salaries	863,159	937,016
Social security costs	100,543	103,181
Other pension costs	173,161	175,261
	1,136,863	1,215,458
Movement on USS provision	(96,399)	(216,713)
	1,040,464	998,745

The average number of employees during the year was 18 (2020:19).

Key management personnel include all individuals who together have authority and responsibility for planning, directing and controlling the activities of the Company. Included within staff costs is key management personnel remuneration in respect of two employees for their qualifying services to the Company of £230,091 (2020: £229,683). The directors received no remuneration in the year.

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2021

6. TANGIBLE FIXED ASSETS

	Computer & office equipment £	Plant & machinery £	Total £
<i>Cost:</i>			
At 1 August 2020	61,985	16,981	78,966
Additions	2,221	1,780	4,001
At 31 July 2021	<u>64,206</u>	<u>18,761</u>	<u>82,967</u>
<i>Depreciation:</i>			
At 1 August 2020	48,940	12,302	61,242
Charge for year	7,231	4,168	11,399
At 31 July 2021	<u>56,171</u>	<u>16,470</u>	<u>72,641</u>
<i>Net Book Value:</i>			
At 31 July 2021	<u>8,035</u>	<u>2,291</u>	<u>10,326</u>
At 31 July 2020	<u>13,045</u>	<u>4,679</u>	<u>17,724</u>

7. STOCKS

	2021 £	2020 £
Raw materials	<u>45,553</u>	<u>42,588</u>

A provision of £25,113 has been made against slow-moving stocks (2020: £19,848).

8. DEBTORS

	2021 £	2020 £
Due from ultimate parent undertaking	103,396	36,921
Trade debtors	126,427	166,919
Other debtors	-	67,655
Prepayments and accrued income	179,731	149,604
	<u>409,554</u>	<u>421,099</u>

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2021

9. CREDITORS: amounts falling due within one year

	2021	2020
	£	£
Due to ultimate parent undertaking	446,179	457,596
Trade creditors	31,077	5,602
Other taxes and social security costs	21,421	62,585
Accruals	39,695	114,217
	<u>538,372</u>	<u>640,000</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.

	2021	2020
	£	£
At beginning of the year	368,300	585,013
Utilised in the year	(16,414)	(14,074)
Revaluation/additions in the year	(82,710)	(212,116)
Unwinding of the discount rate	2,725	9,477
At 31 July	<u>271,901</u>	<u>368,300</u>

The obligation to fund the past deficit on USS arises from the contractual obligation with the USS to fund deficit payments in accordance with the deficit recovery plan. In calculating this provision, Management have estimated future staff levels within the USS scheme for the duration of the contractual obligation and salary inflation. Key assumptions and further information are provided within this note.

The Universities Superannuation Scheme (USS) is a UK-wide scheme which throughout preceding periods was a defined benefit only pension scheme. With effect from 1 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. Due to the mutual nature of the scheme, the Scheme's 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 0.89% in 2021 (2020: 0.74%). 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 21.1% from 1 October 2019 (2020: 19.5% to 30 September 2019 and 21.1% from 1 October 2019).

Kelvin Nanotechnology Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2021

10. PENSION DEFICIT RECOVERY POSITION (continued)

The total USS pension cost for the Company was £173k (2020: £175k). This includes £14k (2020: £15k) of outstanding contributions at the balance sheet date.

In respect of the year ended 31 July 2021, the latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme was as at 31 March 2018 ("the valuation date"), which was carried out using the projected unit method. As at the year end, a further full valuation as at 31 March 2020 was underway. Work was still to be done 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 were also in progress including restrictions on employer exits, debt monitoring and pari passu arrangements. The valuation did not meet its statutory deadline of 30 June 2021.

The 2020 valuation was finalised on 30 September 2021 and details of the results are set out in note 13 'Events After the Reporting Period'.

Since the Company cannot identify its share of USS Retirement Income Builder (defined benefit) assets and liabilities, the following disclosures in respect of the 2018 valuation, that was effective during the year ended 31 July 2021 and at the year end, reflect those relevant for the section as a whole.

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%.

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:

Mortality base table	<u>Pre-retirement:</u> 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.
	<u>Post-retirement:</u> 97.6% of SAPS S1NMA "light" for males and 102.7% 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2021

10. PENSION DEFICIT RECOVERY POSITION (continued)

The current life expectancies used in the 2018 valuation on retirement at age 65 are:

Males currently aged 65 (years)	24.4
Females currently aged 65 (years)	25.9
Males currently aged 45 (years)	26.3
Females currently aged 45 (years)	27.7

Existing benefits:

Scheme assets	£66.5bn
Total scheme liabilities	£79.7bn
FRS 102 total scheme deficit	£13.2bn

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 2021 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2021	2020
Discount rate	0.89%	0.74%
Pensionable salary growth	0.00%	0.00%

11. SHARE CAPITAL

	2021	2020
	£	£
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 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 July 2021

13. EVENTS AFTER THE REPORTING PERIOD

In respect of the Universities Superannuation Scheme (USS), a new Schedule of Contributions based on the 2020 actuarial valuation was agreed in September 2021. The valuation revealed a shortfall in assets, when measured against the Scheme's technical provisions. The size of the shortfall is dependent on whether the anticipated benefit structure reforms and covenant support measures are implemented by 28 February 2022.

If this takes place, the shortfall as at 31 March 2020 is £14.1 billion. If no Benefit Change Deed is entered into, the reduced level of covenant support results in an increase to the technical provisions and the shortfall as at 31 March 2020 is £18.4 billion. This represents a significant deterioration from the £3.6 billion deficit established under the 2018 valuation.

A new deficit recovery plan has been agreed which replaces the plan set out in the 2018 valuation.

Under the new plan, deficit recovery contributions cease from 1 October 2021 and recommence 1 April 2022 at 6.3% of salaries payable for the length of the recovery plan until 31 March 2038. This assumes the Benefit Change Deed is entered into by 28 February 2022. If no Benefit Change Deed is entered into by 28 February 2022, the new plan requires deficit recovery contributions from 1 October 2022 to commence at 3% of salaries then increase every six months by 3% until they reach 20% of salaries at 1 October 2025 and then remain at this level until 31 July 2032.

As at 31 July 2021, and with all the other assumptions used to calculate the provision unchanged, the Company's provision for the obligation to fund the deficit would be as follows:

	Base provision under 2020 valuation	Increase to amount recognised
	£	£
On basis of:		
Benefit Change Deed being entered into	741,000	469,099
Benefit Change Deed not being entered into	1,208,000	936,099

This adjustment will be reflected in the financial statements for the year ending 31 July 2022. At this stage, the USS Trustee has until 28 February 2022 to enter into the Benefit Change Deed. For the 2020/21 financial year, this is considered a non-adjusting event.

There is estimation uncertainty in the value of the of the obligation to fund the USS deficit. Based on the inputs to the valuation model, the following sensitivity analysis outlines the potential impact of changes to the principal assumptions used to value the USS deficit provision on the base provision under the 2020 valuation (assuming the same discount rate of 0.89%). However, this may change significantly following recalculation in 2021/22 based on changes to key assumptions such as discount rate and inflation.

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 July 2021

13. EVENTS AFTER THE REPORTING PERIOD (continued)

	On basis of reforms being in place by 28 February 2022		On basis of reforms not being in place by 28 February 2022	
	Revised provision with sensitivity applied £	Increase to base provision under 2020 valuation £	Revised provision with sensitivity applied £	Increase to base provision under 2020 valuation £
0.5% pa decrease in discount rate	777,000	36,000	1,253,000	45,000
0.5% pa increase in salary inflation over duration	776,000	35,000	1,252,000	44,000
0.5% pa increase in salary inflation year 1 only	745,000	4,000	1,214,000	6,000
0.5% increase in staff changes over duration	778,000	37,000	1,254,000	46,000
0.5% increase in staff changes year 1 only	746,000	5,000	1,215,000	7,000
1% increase in deficit contributions from October 2021	862,000	121,000	1,285,000	77,000