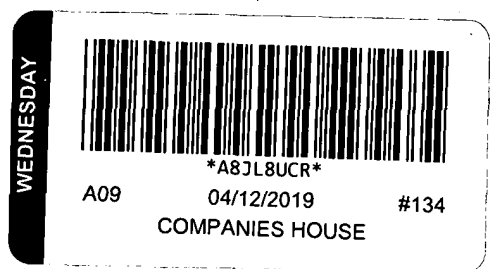


Akzo Nobel Packaging Coatings Limited

**Annual Report and Financial
Statements**

Registered number 059837

For the year ended 31 December 2018



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Strategic Report

The directors present their Strategic Report for the year ended 31 December 2018.

Results for the year

The Company made a loss before taxation of £303,000 (2017: Profit £1,407,000) for the year and turnover of £104,261,000 (2017: £101,222,000).

The Company has net assets of £46,541,000 (2017: £46,767,000)

Principal Activities and Business Review

The principal activity of the Company is the manufacture and sale of lacquers, coatings, inks, varnishes and coil coatings for the food and non-food packaging industry and for specialised industrial use. The Company operates three sites: one in Birmingham, one in Hull and one in Deeside.

Effective 31st January 2017, the Company purchased the assets of Deeside Coatings Limited in order to expand its footprint in the Coil Coatings market segment within the UK.

Current trading

The management of the business and the Company's ability to successfully execute its strategy for growth are subject to several key business risks and uncertainties. These include unexpected legislation over materials of concern, international competition in the market and product availability (i.e. changes or shortages to raw material supply at short notice).

The additional business reported in 2017 as a result of the acquisition of the BASF Coil coatings business in Deeside has performed well in 2018 despite some large supply side issues with a plasticiser caused by the low levels on the Rhine affecting our supplier BASF. Despite these outages the Company's overall performance was recognised by TATA as very good and market share and pricing activities were generally successful.

Overall the market share in TATA is above 50% on a very narrow product portfolio although the same can be said of the customer portfolio, there are consequently very high interdependencies between the Company and TATA and that is reflected in high OTIF (On Time and In Full) performance and good pricing delivering the highest European site based return on sales in Coil coatings.

In Packaging Coatings, the Company was able to maintain market share after a very competitive tender process which followed the consolidation reported in 2016, although raw material prices have risen rapidly during 2017 and early 2018 causing a reduction in margin generated. This was a feature throughout the year as the Company struggled with key customers on contracts to recover this margin. Some success was achieved at the end of 2018 which shows better margins in up to date 2019 trading. More remains to be done in this area.

By far the biggest impact on the packaging coatings industry in recent years has been the introduction of unexpected legislation against the use of Bisphenol A (BPA), a main building block for epoxy-based coatings. In 2015 the legislation in France suspending the use of BPA in all forms of direct food contact packaging was apparently at odds with the statements from the regulatory bodies EFSA and FDA, and it therefore initially took the lacquer manufacturers and can makers by surprise.

The Company continues to invest heavily in the next generation of Inside Spray products free of BPA and are seeing some better success in trialling materials. It is noteworthy that since last year there has been a significant shift towards cans from plastic and with the current supply chain the Company sees that growth continuing to translate into existing BPA technology, this trend is expected to continue giving robust opportunities.

Principal risks and uncertainties

As a significant proportion of the Company's turnover is exported the full impact of the Brexit announcement remains unknown, and any change to the value of Sterling against both the Euro and the US Dollar will have an impact on future results. The Company's Brexit plan for high volume products such as inside spray lacquer in the event of "no deal" is to build stocks in advance on mainland Europe for all can making customers before the start of the normally

Strategic Report (continued)

busy spring season, providing the Company is able to obtain and store the necessary raw materials, the majority of which are sourced from mainland Europe. For the Deeside site the largest risk comes from any supply side disruption into the UK from Germany on critical raw materials.

The business holds regular management meetings to review the issues and to identify strategies to mitigate such risks.

Future Developments

The external commercial environment is expected to remain very competitive in the coming year as competitors seek to increase volumes in the mature markets. Significant expenditure on Research and Development will continue as further technologies are developed to provide market leading coating solutions to the Company's customers. For example, in 2017 the Company installed a beverage ends press so it could replicate the most severe tooling requirements for our new BPA-NI beverage end products being developed in the Company's Birmingham laboratories.

Key performance indicators

The principal key performance indicators affecting the Company are summarised below:

Title	Description	Performance to date
Sales Growth	The company expected to keep turnover at a similar level to 2017 by increasing selling prices to offset continued raw material price increases.	Turnover increased 3% during 2018
OSHA recordable injuries	2018 TRR target ≤ 2.2	<p>Actual TRR was 2.55 for 2018. Two main Lost Time Injuries contributed to the 2.55.</p> <p>An employee at the Birmingham Site was struck by a reversing forklift truck and sustained serious foot and ankle injuries.</p> <p>An employee at the Hull site suffered a broken hand after trapping it in a filling machine was attempting to clear a blockage</p>

On behalf of the board



J. Kavanagh
Director

2 December 2019

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

Directors

The directors who held office during and up to the date of signing the financial statements were as follows:

D.J. James	
J. Kavanagh	(appointed 24 January 2019)
M. Smalley	
N. Sprigg	(resigned 31 May 2018)
G. Brown	(appointed 30 June 2019)

Dividends

The directors do not recommend the payment of a dividend during the year (2017: £Nil).

Political Contributions

The Company made no political contributions or incurred any political expenditure during the current or prior financial year.

Financial Risk Management

Financial risk includes price risk, credit risk, liquidity risk and cash flow risk. These are addressed and managed at a group level as disclosed in the AkzoNobel Report 2018, pages 31 to 35. An overall risk management program seeks to identify, assess and if necessary, mitigate these financial risks in order to minimise potential adverse effects on financial performance.

Research and development

The Company continues to place great importance in the area of research and development which the directors believe is essential if it is to retain a competitive position in the market.

Disabled employees

Disabled employees will be given full and fair consideration for vacancies as they occur. Employees who become disabled during their employment will be retrained for suitable alternative employment wherever possible. Training opportunities, career development and promotion prospects for disabled persons are equal to those of all other employees.

Employee involvement

The policy of providing employees with information about the Company will be continued through various media used by the Company to present such information. A Works Council meets on a regular basis which enables employee representatives to discuss business issues with senior management. An annual bonus scheme is in operation which rewards employees and is linked to the performance of the Company.

Payment of suppliers

The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Creditor days for the Company at 31 December 2018 were 78 days (2017: 77 days).

Directors' Report (continued)

Statement of directors' responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101, "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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 auditors

Pursuant to Section 485(3)(c) of the Companies Act 2006, PricewaterhouseCoopers LLP was appointed as the Company's auditors until the next period for appointing auditors.

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.

On behalf of the board



G. Brown
Director

The AkzoNobel Building
Wexham Road
Slough
SL2 5DS

2 December 2019

Independent auditors' report to the members of Akzo Nobel Packaging Coatings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Akzo Nobel Packaging Coatings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statement (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2018; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Akzo Nobel Packaging Coatings Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the Financial Statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

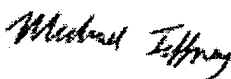
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Michael Jeffrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
2 December 2019

Statement of Comprehensive Income
for the year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Turnover	2	104,261	101,222
Cost of sales		(76,425)	(75,025)
		<hr/>	<hr/>
Gross profit		27,836	26,197
Distribution costs		(6,575)	(6,205)
Administrative expenses		(21,880)	(18,823)
Other operating income	3	420	420
		<hr/>	<hr/>
Operating (loss)/profit		(199)	1,589
Interest receivable and similar income	4	300	109
Interest payable and similar expenses	4	(404)	(291)
		<hr/>	<hr/>
(Loss)/Profit before taxation	5	(303)	1,407
Tax on (loss)/profit	8	77	(13)
		<hr/>	<hr/>
(Loss)/Profit for the financial year and total comprehensive (expense)/ income		(226)	1,394
		<hr/>	<hr/>

All amounts are derived from continuing operations.

The notes on pages 12 to 24 form a part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2018

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	3,572	41,801	45,373
Total comprehensive income		1,394	1,394
Profit for the financial year		1,394	1,394
Total comprehensive income for the year		1,394	1,394
Balance at 31 December 2017	3,572	43,195	46,767
Balance at 1 January 2018	3,572	43,195	46,767
Total comprehensive income		(226)	(226)
Profit for the financial year		(226)	(226)
Total comprehensive income for the year		(226)	(226)
Balance at 31 December 2018	3,572	42,969	46,541

Balance Sheet
at 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Fixed assets			
Intangible assets	9	40,773	40,048
Tangible assets	10	17,222	18,356
		<u>57,995</u>	<u>58,404</u>
Current assets			
Stocks	11	6,397	6,721
Debtors	12	82,756	84,792
		<u>111,246</u>	<u>91,513</u>
Creditors: amounts falling due within one year	13	<u>(75,316)</u>	<u>(77,859)</u>
Net current assets		<u>13,837</u>	<u>13,654</u>
Total assets less current liabilities		<u>71,832</u>	<u>72,058</u>
Creditors: amounts falling due after more than one year	13	<u>(25,291)</u>	<u>(25,291)</u>
Net assets		<u>46,541</u>	<u>46,767</u>
Capital and reserves			
Called up share capital	15	3,572	3,572
Profit and loss account		42,969	43,195
Total equity		<u>46,541</u>	<u>46,767</u>

These financial statements on pages 9 to 24 were approved by the board of directors on 2 December 2019 and were signed on its behalf by:



J. Kavanagh
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Akzo Nobel Packaging Coatings Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in England, within the United Kingdom. The Company's registration number is 59837 and the registered office address is The AkzoNobel Building, Wexham Road, Slough, SL2 5DS.

These financial statements were prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") under historical cost convention in pound sterling. The amendments to FRS 101 (2013/14 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Akzo Nobel N.V. includes the Company in its consolidated financial statements. The consolidated financial statements of Akzo Nobel N.V. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Velperweg 76, P.O Box 9300, 6800 5B Arnhem, The Netherlands.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a.Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries and within Akzo group companies;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Akzo Nobel N.V. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

Notes (continued)

1 Accounting policies (continued)

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The directors have made the necessary enquiries and assessed the Company's financial position and have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. The directors therefore, continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies 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 retranslated to the functional currency at the foreign exchange rate ruling at that date. 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 retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

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

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 using the effective interest method, less any impairment losses.

1.5 Tangible fixed assets

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- land and buildings 40 years
- plant and equipment 10 - 25 years
- other operating assets 3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date

Notes (continued)

1 Accounting policies (continued)

1.6 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generated units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practical to quantify the effect on the financial statements of this departure.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Other intangible assets

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

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

1.7 Stocks

Stocks 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 stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.8 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, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.9 Turnover

Turnover represents the amounts, excluding VAT, receivable by the Company for goods and services supplied to customers in the ordinary course of business. Turnover is recognised when products have been delivered or services have been rendered and collectability is reasonably assured.

1.10 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Notes (continued)

1 Accounting policies (continued)

1.10 Expenses (continued)

Interest receivable and Interest payable - Interest payable and similar charges include interest payable, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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 profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.11 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 temporary difference can be utilised.

1.12 Pensions

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

Some of the Company's employees are members of group wide defined benefit pension plans. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the legally sponsoring employer, which is Akzo Nobel UK Ltd / Imperial Chemical Industries Limited. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable in respect of active members by the participating entities are determined following each triennial valuation conducted by a qualified independent actuary, and charged as a percentage of salary costs.

Notes (continued)

1 Accounting policies (continued)

1.13 New standards, amendments and IFRIC interpretations

IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 December 2018. The adoption of these standards has not had a material impact on the company and no restatement has been made. There are no new accounting standards, or amendments to accounting standards, or IFRIC interpretations effective for the year ended 31 December 2018, that have had a material impact on the Company.

1.14 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

(b) Inventory provisioning

The Company is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials.

(c) Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience.

(d) Impairment of non-financial assets

When assessing impairment of non-financial assets, management considers factors including the net asset value, nature of the entity, historical experience (such as political environment) and future cash flows.

(e) Provisions

Provisions are based on estimates of future events that the Company has provided for now. This includes items such as restructuring, future plans of operations and environmental provisions. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors.

Notes (continued)

2 Turnover

Geographical analysis of turnover (on a destination basis) is as follows:

	2018 £000	2017 £000
United Kingdom	38,787	38,737
Europe	51,892	50,270
Middle East	7,351	8,359
Far East	3,932	2,003
America	619	715
Asia, Australasia and Africa	1,680	1,138
	<u>104,261</u>	<u>101,222</u>

3 Other operating income

	2018 £000	2017 £000
Royalty income	420	420
	<u>420</u>	<u>420</u>

4 Interest

Interest receivable and similar income	2018 £000	2017 £000
Interest receivable from group undertakings	300	109
	<u>300</u>	<u>109</u>
 Interest payable and similar expenses	 2018 £000	 2017 £000
Interest payable to group undertakings	(404)	(291)
	<u>(404)</u>	<u>(291)</u>

Notes (continued)

5 (Loss)/Profit before taxation

	2018 £000	2017 £000
<i>(Loss)/Profit before taxation is stated after charging:</i>		
Depreciation	2,675	2,585
Intangibles amortisation	(378)	2,990
Operating lease rentals:		
Plant and machinery	148	197
Other	396	457
Research and development expenditure	4,836	5,382
<i>Auditors' remuneration:</i>		
Audit of these financial statements pursuant to legislation	58	50

6 Remuneration of directors

	2018 £000	2017 £000
Directors' emoluments in respect of qualifying services	148	248
Company contributions to defined benefit pension schemes	50	82

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	2	3

Remuneration of highest paid director

	2018 £000	2017 £000
Directors' emoluments in respect of qualifying services	114	117
Company contributions to defined benefit pension schemes	37	36

Notes (continued)

7 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	Number of employees	
	2018	2017
Office and management	49	50
Research and development	54	59
Production	117	121
	<u>220</u>	<u>230</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	9,153	9,214
Social security costs	888	993
Other pension costs	2,210	2,310
	<u>12,251</u>	<u>12,517</u>

8 Tax on (loss)/profit

The tax charge consists of the following:

	2018 £000	2017 £000
<i>UK corporation tax</i>		
Current tax on income	362	993
	<u>362</u>	<u>993</u>
Total current tax		
<i>Deferred tax (see note 14)</i>		
Current year	(491)	(1,038)
Effects of changes in tax rate	52	58
	<u>(77)</u>	<u>13</u>
Tax on (loss)/profit		

Notes (continued)

8 Tax on (loss)/profit (continued)

	2018 £000	2017 £000
<i>Current tax reconciliation</i>		
(Loss)/Profit for financial year	(226)	1,394
Tax charge on profit	(77)	13
	<hr/>	<hr/>
(Loss)/Profit before taxation	(303)	1,407
	<hr/>	<hr/>
Tax on (loss)/profit before taxation at 19.00% (2017: 19.25%)	(58)	271
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	55	100
UK to UK transfer pricing adjustment	(126)	(416)
Tax rate changes	52	58
	<hr/>	<hr/>
Total current tax (see above)	(77)	13
	<hr/>	<hr/>

In the Summer 2015 Budget Statement, it was announced that the rate of corporation tax was reduced from 20% to 19% effective 1 April 2017, with a further reduction to 18% effective 1 April 2020. In the March 2016 Budget Statement, it was announced that the rate of corporation tax would reduce from 18% to 17% effective 1 April 2020. These changes have been substantively enacted at the balance sheet date.

As a result of these changes, the effective corporation tax rate applicable for 2017 was 19.25% and the rate applicable for 2018 was 19%. The rate applied to deferred tax balances is 17% as these balances are not expected to be utilised until after this rate takes effect.

Notes (continued)

9 Intangible assets

	Goodwill £000	Concessions, patents, licences, trademarks and similar rights and assets £000	Total £000
Cost			
At beginning of year	21,023	22,705	43,788
Additions	347		347
At end of year	21,370	22,705	44,075
Accumulated amortisation and impairment			
At beginning of year		3,680	3,680
Charge for the year		(378)	(378)
At end of year		3,302	3,302
Net book value			
At 31 December 2018	21,370	19,403	40,773
At 31 December 2017	21,023	19,025	40,048

Amortisation of £(378,000) (2017: £2,990,000) is included in the statement of comprehensive income in administrative expenses.

10 Tangible assets

	Land and buildings £000	Plant and machinery £000	Other operating assets £000	Total £000
Cost				
At beginning of year	6,093	33,569	4,443	44,105
Additions	3	1,534	4	1,541
Disposals	-	-	-	-
At end of year	6,096	35,103	4,447	45,646
Accumulated Depreciation				
At beginning of year	2,966	18,896	3,887	25,749
Charge for the year	140	2,350	185	2,675
Disposals	-	-	-	-
At end of year	3,106	21,246	4,072	28,424
Net book value				
At 31 December 2018	2,990	13,857	375	17,222
At 31 December 2017	3,127	14,673	556	18,356

Included in plant and machinery above is £2,425,828 (2017: £2,957,398) in respect of assets under construction which have not been depreciated. Included in the freehold land and buildings is £1,322,868 (2017: £1,320,798) in respect of land which is not depreciated. Included in other operating assets is £122,975 (2017: £122,975)

Notes (continued)

11 Stocks

	2018 £000	2017 £000
Raw materials and consumables	2,816	2,587
Work in progress	535	720
Finished goods	3,046	3,414
	<u>6,397</u>	<u>6,721</u>

The cost of inventories recognised as an expense and included in cost of sales amount to £68,073,319 (2017: £61,508,161). The write down of stock to net realisable value amounted to £(177,324) (2017: £(197,934)).

12 Debtors

	2018 £000	2017 £000
Debtors: amounts falling due within one year:		
Trade debtors	24,995	17,963
Amounts owed by parent undertaking and fellow subsidiary undertakings	56,746	53,879
Other debtors	670	12,822
Prepayments	-	128
Deferred tax (see note 14)	345	-
	<u>82,756</u>	<u>84,792</u>

13 Creditors

	2018 £000	2017 £000
Creditors: amounts falling due within one year:		
Trade creditors	57,738	55,724
Amounts owed to group undertakings	10,460	5,099
Corporation tax	3,649	3,287
Deferred tax (see note 14)	-	94
Other creditors	-	11,917
Accruals	3,469	1,738
	<u>75,316</u>	<u>77,859</u>
Creditors: amounts falling due after more than one year:		
Amounts owed to group undertakings	25,291	25,291
	<u>100,607</u>	<u>103,150</u>

Notes (continued)

14 Deferred tax

	Deferred Taxation asset/(liability)	
	2018 £000	2017 £000
At beginning of year	(94)	2,556
Charge/(credit) to the profit and loss account	439	980
Liability arising on the transfer of intangible fixed assets	-	(3,630)
At end of year	345	(94)

The amounts for deferred taxation are set out below:

	2018 £000	2017 £000
Capital allowances	345	3,536
Other timing differences	-	(3,630)
Deferred tax asset/(liability)	345	(94)

Deferred tax assets are recognised to the extent that future probable taxable profits will be available against which the deferred tax asset can be utilised.

15 Called up share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid:</i>		
7,143,820 (2017: 7,143,820) ordinary shares of 25p each	1,786	1,786
7,143,820 (2017: 7,143,820) deferred shares of 25p each	1,786	1,786
	3,572	3,572

As regards voting:

The deferred shares shall carry no rights to receive notice of or to attend or vote at any general meeting of the Company.

Notes (continued)

16 Capital commitments

	2018 £000	2017 £000
Amounts contracted for but not provided for in the financial statements	706	716

These amounts relate to capital improvement projects that have commenced during the year but have not yet completed. The capital items are capitalised once work is completed.

17 Commitments under operating leases

Commitments in respect of operating lease rentals of plant and machinery, office equipment and buildings to be paid during the next year are:

	2018 £000	2017 £000
Operating leases which expire:		
Within one year	414	441
Between one and five years	1,492	1,477
More than five years	590	1,075
	<u>2,496</u>	<u>2,993</u>

18 Pension schemes

Defined benefit plans

The Company is a participant in two group wide defined benefit schemes – Akzo Nobel (CPS) Pension Scheme (“CPS”) and ICI Pension Fund (“the ICI PF”). As the legal sponsoring entity for these schemes, the financial statements of Akzo Nobel UK Ltd and Imperial Chemical Industries Limited respectively identify and disclose the information in the plans as prescribed by IAS19 and these financial statements are available from the Company’s registered office at The AkzoNobel Building, Wexham Road, Slough, SL2 5DS or from Companies House. The contributions payable in respect of active members by the participating entities are determined following each triennial valuation conducted by a qualified independent actuary and charged as a percentage of salary costs. The charge recognised by active members in 2018 was £1,182,714 (2017: £1,384,000). In 2014 and previous years, the contributions payable in respect of any funding deficit was charged to non sponsoring entities based on a historical analysis of liabilities related to businesses that historically operated within that legal entity. From 2015, the group wide policy has been updated and funding deficits are not charged to sponsoring entities.

Defined contribution plans

The Company also operates a defined contribution pension plan. The total expense relating to this plan in 2018 was £1,027,279 (2017: £974,000)

19 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a wholly owned subsidiary of Dulux Limited, which is the immediate parent company, a company incorporated in England and Wales. The ultimate controlling party is Akzo Nobel N.V.

The only group in which the results of the Company are consolidated is that headed by Akzo Nobel N.V., the ultimate parent company, incorporated in the Netherlands. Copies of the Akzo Nobel N.V. Annual Report and Accounts are available to the public and may be obtained from Velperweg 76, P.O.Box 9300, 6800 SB Arnhem, the Netherlands.