

Registration number: 00147556

# LANXESS Urethanes UK Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2018



# **LANXESS Urethanes UK Ltd**

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# LANXESS Urethanes UK Ltd

## Company Information

|                             |  |
|-----------------------------|--|
| <b>Directors</b>            | John Peter Lord<br>Christopher James Flett<br>Jacques Louis Albert Perez   |
| <b>Registered office</b>    | Paragon Works<br>Baxenden<br>Lancashire<br>BB5 2SL   |
| <b>Solicitors</b>           | Eversheds<br>1 Earlsfort Center<br>Earlsfort Terrace<br>Dublin 2<br>Ireland  |
| <b>Bankers</b>              | Bank of America<br>2 King Edward Street<br>London<br>EC1A 1HQ<br><br>UniCredit Banca<br>Milano Cordusio<br>P.Za Cordusio<br>Italy<br>20123 Milano MI |
| <b>Independent Auditors</b> | PricewaterhouseCoopers LLP<br>No. 1 Spinningfields<br>Hardman Square<br>Manchester<br>M3 3EB   |

## LANXESS Urethanes UK Ltd

### Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

#### Principal activities and business review

The principal activities of the Company are the manufacture and sale of polyurethane prepolymers and cross linkers, polyurethane foam systems and speciality acrylic resins.

#### Strategic review and future outlook

The Company strategy is to obtain revenue growth and maintain strong margins by the continued focus on the development of new and innovative products and speciality markets in the core area of urethane technology.

LANXESS Urethanes UK Ltd has one manufacturing site in Baxenden, Lancashire and is part of the LANXESS global chemical business.

#### Performance during 2018

Revenue decreased by £479,000 compared to previous year, driven by slightly reduced demand from Europe. Gross margins dropped from 17% in 2017 to 10% driven by higher raw materials costs.

The Company's key financial performance indicators during the year were as follows:

|                         | 2018<br>£ 000 | 2017<br>£ 000 |
|-------------------------|---------------|---------------|
| Turnover                | 22,167        | 22,646        |
| Gross profit            | 2,244         | 3,896         |
| Operating profit        | 338           | 2,263         |
| (Loss)/Profit after tax | <u>(4)</u>    | <u>1,830</u>  |

The Directors monitor internally through a number of financial and non-financial key performance indicators. These include sales output, productivity, profitability, on time delivery to customers and safety metrics. The Company produces an Annual Business Plan, and monthly forecasts showing future sales, profits and cash flow to help monitor business performance.

On time delivery to customers was 96% in 2018 (2017: 98%).

| Safety performance    | 2018     | 2017     |
|-----------------------|----------|----------|
| Plant hours worked    | 156,851  | 153,058  |
| First aid cases       | 1        | 1        |
| Lost time accidents   | -        | -        |
| No. of lost work days | <u>-</u> | <u>-</u> |

## **LANXESS Urethanes UK Ltd**

### **Strategic Report for the Year Ended 31 December 2018**

#### **Principal risks and uncertainties**

Key risks recognised to the business and the actions taken to mitigate them are:

##### **Complying with laws and regulations**

###### ***Risk description***

There are continuously expanding laws and regulatory requirements in environmental, health and safety and product registration areas and we may be held responsible for any liabilities arising out of non-compliance with these laws and regulations.

###### ***Mitigating actions***

The directors use both internal employees and external advisors to monitor compliance with specific laws and regulations. We support the EU REACH chemical regulation program for environmental and public safety and have so far registered all the chemicals that are relevant for the company by the stipulated deadlines.

The company remains dedicated to minimizing compliance risk by fostering an open and transparent culture through continuous employee training, education and adherence to our Code of Conduct.

##### **Safety**

###### ***Risk description***

As a manufacturer of chemicals we are exposed to safety risks through damage to our plant and equipment, the surrounding environment and our employees.

###### ***Mitigating actions***

As a chemical site following the Control of Major Accident Hazards (COMAH) regulations, which ensure that companies take all necessary measures to prevent major accidents involving dangerous substances and limit the consequences to people and the environment of any major accidents that do occur. We have a dedicated health and safety team and promote safe working conditions and practices through active engagement with our employees and visitors to the site.

##### **Sourcing of raw materials and energy**

###### ***Risk description***

Supply and prices of key raw materials and energy can be volatile, affected by economic turbulence and additional regulations. This can have a direct impact on our margins and our ability to maintain our competitive position. The continuing uncertainty surrounding Brexit has effected the pricing of raw materials purchased from the EU due to exchange rate volatility and the Company cannot be certain of the long term effects of the UK leaving the EU without a deal.

###### ***Mitigating actions***

Our procurement processes and organisation are designed to leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers. Whilst we attempt to match raw material and energy price increases with corresponding product price increases we may not be able to do so immediately. Ultimately, our ability to pass on increases depends on market conditions.

##### **Foreign Exchange volatility**

###### ***Risk description***

Foreign exchange rates have seen significant fluctuation in recent years, particularly following the United Kingdom's decision to exit the European Union. Many of our raw materials are priced in Euros and US Dollars and this can have a negative impact on our profitability.

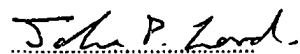
###### ***Mitigating actions***

Foreign exchange volatility is managed at Group level using financial derivatives to hedge exposure. The Company aids this process through weekly EUR and USD cash requirement forecasting.

**LANXESS Urethanes UK Ltd**

**Strategic Report for the Year Ended 31 December 2018**

Approved by the Board on 13/7/2019 and signed on its behalf by:



John Peter Lord  
Director

Paragon Works  
Baxenden  
Lancashire  
BB5 2SI

## **LANXESS Urethanes UK Ltd**

### **Directors' Report for the Year Ended 31 December 2018**

The directors present their report and the audited financial statements for the year ended 31 December 2018.

#### **Directors of the company**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

John Peter Lord

Christopher James Flett

Kiern Mark O'Connor (resigned 31 October 2018)

Jacques Louis Albert Perez (appointed 31 October 2018)

#### **Charitable and political contributions**

The Company made no political contributions during the year (2017:£nil). Donations to UK Charities amounted to £nil (2017:£2,250).

#### **Employment of disabled persons**

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

#### **Employee involvement**

During the year the policy of providing employees with information about the Company has been continued through Company journals, notice boards and conferences. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

#### **Research and development**

Costs of £nil (2017: £nil) have been incurred in relation to research and development.

#### **Future developments**

Although the global economy continued to strengthen overall in 2018, growth within the EU remains uncertain and risks to economic growth remain. Concerns remain of the potential adverse impact on the business of a hard Brexit resulting from changes in border controls and delays. As a counter measure to reduce risk in the initial months the commercial team have liaised with EU customers to forecast demand to enable appropriate product stock to be made and shipped for sale from within the EU. Equally, EU sourced raw materials are planned to be purchased for stock ahead of the anticipated leave date. These preparations were put in place for the original leave date of 29 March 2019 and preparations are under way again for the potential leave date of 31 Oct 2019. Longer term impacts of Brexit are less certain.

#### **Dividends**

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2018 (2017: £nil).

#### **Financial risk management**

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems up to and including the date of approval of the financial statements. This review included financial controls that could affect the Company's business.

## LANXESS Urethanes UK Ltd

### Directors' Report for the Year Ended 31 December 2018

#### Directors' liabilities

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law.

#### Disclosure of information to the auditors

The directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information of which the auditors are unaware.

#### 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 these 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.

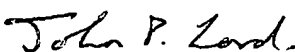
The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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.

#### Reappointment of auditors

The auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 19/9/2019 and signed on its behalf by:



John Peter Lord  
Director



## **LANXESS Urethanes UK Ltd**

### **Independent auditors' report to the members of LANXESS Urethanes UK Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, LANXESS Urethane UK LTD'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 Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which includes 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 remain independent of the company in accordance 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**

ISA's (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 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 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 on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

## **LANXESS Urethanes UK Ltd**

### **Independent auditors' report to the members of LANXESS Urethanes UK Limited**

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 the 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.

#### *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, 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 relating 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 be reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## LANXESS Urethanes UK Ltd

### Independent auditors' report to the members of LANXESS Urethanes UK Limited

A further description of our responsibilities for the audit of the financial statements is included on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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.

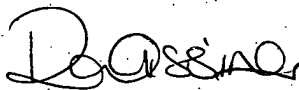
### Other required reporting

#### 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.



Rebecca Gissing (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

24 September 2019

# **LANXESS Urethanes UK Ltd**

## **Profit and Loss Account for the Year Ended 31 December 2018**

|  |             | <b>2018</b>       | <b>2017</b>         |
|--|-------------|-------------------|---------------------|
|  | <b>Note</b> | <b>£ 000</b>      | <b>£ 000</b>        |
| Turnover                                     | 4           | 22,167            | 22,646              |
| Cost of sales                                |             | <u>(19,923)</u>   | <u>(18,750)</u>     |
| Gross profit                                 |             | 2,244             | 3,896               |
| Distribution costs                           |             | (338)             | (564)               |
| Administrative expenses                      |             | <u>(1,568)</u>    | <u>(1,069)</u>      |
| Operating profit                             | 5           | 338               | 2,263               |
| Other interest receivable and similar income | 9           | 1,945             | 1,935               |
| Interest payable and similar expenses        | 10          | <u>(1,903)</u>    | <u>(1,915)</u>      |
| Profit before tax                            |             | 380               | 2,283               |
| Tax on profit                                | 11          | <u>(384)</u>      | <u>(453)</u>        |
| (Loss)/profit for the financial year         |             | <u><u>(4)</u></u> | <u><u>1,830</u></u> |

The above results were derived from continuing operations.

# LANXESS Urethanes UK Ltd

## Statement of Comprehensive Income for the Year Ended 31 December 2018

|   | Note | 2018<br>£ 000       | 2017<br>£ 000       |
|---|------|---------------------|---------------------|
| (Loss)/profit for the financial year                                      |      | <u>(4)</u>          | <u>1,830</u>        |
| <b>Items that will not be reclassified subsequently to profit or loss</b> |      |                     |                     |
| Remeasurement of defined benefit asset                                    | 12   | 754                 | 1,189               |
| Changes in effect of asset ceiling  |      | <u>(1,606)</u>      | <u>(3,659)</u>      |
|   |      | <u>(852)</u>        | <u>(2,470)</u>      |
| Current tax on defined benefit pension scheme                             | 11   | -                   | 320                 |
| Deferred tax on defined benefit pension scheme                            |      | <u>145</u>          | <u>137</u>          |
|   |      | <u>145</u>          | <u>457</u>          |
| Total comprehensive expense for the year                                  |      | <u><u>(711)</u></u> | <u><u>(183)</u></u> |

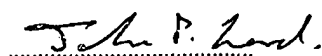
The notes on pages 14 to 37 form an integral part of these financial statements.

**LANXESS Urethanes UK Ltd**

**(Registration number: 00147556)  
Balance Sheet as at 31 December 2018**

|  | Note | 2018<br>£ 000  | 2017<br>£ 000  |
|--|------|----------------|----------------|
| <b>Fixed Assets</b>                            |      |                |                |
| Intangible assets                              | 13   | 768            | 333            |
| Property, plant and equipment                  | 14   | <u>3,413</u>   | <u>2,864</u>   |
|  |      | <u>4,181</u>   | <u>3,197</u>   |
| <b>Current assets</b>                          |      |                |                |
| Stocks   | 15   | 2,534          | 2,882          |
| Debtors  | 16   | 10,049         | 12,079         |
| Deferred tax assets                            | 11   | <u>644</u>     | <u>883</u>     |
|  |      | 13,227         | 15,844         |
| Creditors: amounts falling due within one year | 17   | <u>(2,339)</u> | <u>(3,261)</u> |
| Net current assets                             |      | <u>10,888</u>  | <u>12,583</u>  |
| Net assets                                     |      | <u>15,069</u>  | <u>15,780</u>  |
| <b>Capital and reserves</b>                    |      |                |                |
| Called up share capital                        | 18   | 1,800          | 1,800          |
| Share premium account                          |      | 85             | 85             |
| Retained earnings                              |      | <u>13,184</u>  | <u>13,895</u>  |
| Shareholders' funds                            |      | <u>15,069</u>  | <u>15,780</u>  |

The financial statements on pages 10 to 37 were approved by the Board of Directors on 19/9/2019 and signed on its behalf by:



John Peter Lord  
Director

**LANXESS Urethanes UK Ltd**

**Statement of Changes in Equity for the Year Ended 31 December 2018**

|                             | Share capital<br>£ 000 | Share premium<br>£ 000 | Retained<br>earnings<br>£ 000 | Total<br>£ 000 |
|-----------------------------|------------------------|------------------------|-------------------------------|----------------|
| At 1 January 2018           | 1,800                  | 85                     | 13,895                        | 15,780         |
| Loss for the year           | -                      | -                      | (4)                           | (4)            |
| Other comprehensive loss    | -                      | -                      | (707)                         | (707)          |
| Total comprehensive expense | -                      | -                      | (711)                         | (711)          |
| At 31 December 2018         | 1,800                  | 85                     | 13,184                        | 15,069         |

|                             | Share capital<br>£ 000 | Share premium<br>£ 000 | Retained<br>earnings<br>£ 000 | Total<br>£ 000 |
|-----------------------------|------------------------|------------------------|-------------------------------|----------------|
| At 1 January 2017           | 1,800                  | 85                     | 14,078                        | 15,963         |
| Profit for the year         | -                      | -                      | 1,830                         | 1,830          |
| Other comprehensive loss    | -                      | -                      | (2,013)                       | (2,013)        |
| Total comprehensive expense | -                      | -                      | (183)                         | (183)          |
| At 31 December 2017         | 1,800                  | 85                     | 13,895                        | 15,780         |

The notes on pages 14 to 37 form an integral part of these financial statements.

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 1 General information

The Company is a private company limited by share capital incorporated and domiciled in United Kingdom.

The address of its registered office is:

Paragon Works  
Baxenden  
Lancashire  
BB5 2SL  
United Kingdom

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

### 2 Accounting policies

#### Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

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 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, LANXESS AG includes the Company in its consolidated financial statements. The consolidated financial statements of LANXESS AG are prepared in accordance with IFRS and are available to the public and may be obtained from the address in note 20.



## **LANXESS Urethanes UK Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure exemptions**

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;

Disclosures in respect of transactions with related parties;

Disclosures in respect of capital management;

The effects of new but not yet effective IFRSs; and

Disclosures in respect of the compensation of Key Management Personnel.

The Company is exempt from the requirements to prepare group accounts under Section 400 of the Companies Act 2006. These financial statements present information as an individual undertaking, and not about its group.

The financial statements are prepared on the historical cost basis.

##### **Changes in accounting policy**

##### **New standards, interpretations and amendments effective**

The following new accounting standards, or amendments to accounting standards that impact these financial statements have become effective during the year ended 31 Dec 2018:

IFRS 9 "Financial Instruments" has been adopted by the entity on the effective date of 1 January 2018. The adoption of IFRS 9 resulted in a change to the entity's accounting estimates to reflect the new expected credit loss impairment model for financial assets, particularly in relation to the provision for trade receivables. Changes to the classification, impairment and measure of financial assets and liabilities have been considered and it has been concluded these changes are not material for the entity.

IFRS 15 "Revenue from contracts with customers" was adopted by the Company from 1 January 2018. IFRS 15 requires companies to apportion revenue from customer contracts to separate performance obligations and recognise revenue as these performance obligations are satisfied. The vast majority of the Company's revenue is generated from the delivery of goods to customers representing a single performance obligation which is satisfied upon delivery of the relevant goods. The adoption of the standard has therefore had no impact on existing revenue recognition policies.

Standards, amendments and interpretations that are not yet effective are as follows:

IFRS 16 "Leases" will become applicable for financial years beginning on or after 1 January 2019.

## **LANXESS Urethanes UK Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

##### **Revenue recognition**

Revenue from the sale of goods is attributable to contracts with third parties and is recognised when control over the goods has transferred to the buyer representing a single performance obligation which is satisfied upon delivery of the relevant goods.

Revenue is measured net of returns, refunds or other obligations due to customers for goods returned to the seller. Revenue consists of the invoiced value for the sale of goods net of value added tax and after the deduction of customer rebates and discounts allowed. Payment is due, on average, within sixty days of delivery.

Return provisions and early settlement discounts are based on experience over an appropriate period whereas volume discounts are based on agreements with customers and expected volumes. There has been no significant change to the Company's accounts policy for revenue as a result of the adoption of IFRS 15 from 1 January 2019.

##### **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

##### **Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## LANXESS Urethanes UK Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

##### Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

| Asset class                         | Depreciation method and rate             |
|-------------------------------------|--|
| Buildings (within Land & Buildings) | Equal instalments over 40 years          |
| Plant & Machinery                   | Equal instalments between 3 and 15 years |

##### Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets comprise REACH costs, which is an EU regulation covering the Registration, Evaluation, Authorisation and restriction of Chemicals.

##### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

| Asset class             | Amortisation method and rate    |
|-------------------------|---------------------------------|
| Other intangible assets | Equal instalments over 12 years |

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

For trade receivables, the entity recognises an allowance for the expected credit losses for customers and other receivables. As permitted by IFRS 9 the entity applies the simplified approach which requires lifetime credit losses to be recognised from initial recognition of the receivables. An estimate is made of the ECL based on the entities historical default rates as well as forward looking estimates at the end of each reporting period. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to the income statement as they are recognised.

##### Stocks

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

## **LANXESS Urethanes UK Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

##### **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

##### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

## LANXESS Urethanes UK Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### Employee benefits

###### 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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated (separately for each plan) by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

#### 3 Critical accounting judgements and key sources of estimation uncertainty

##### Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 12 for the disclosures of the defined benefit pension scheme.

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Income tax

Significant estimates are made to determine both current and deferred tax liabilities/ assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns.

#### Stock provisions

The company writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

### 4 Turnover

The analysis of the company's revenue for the year, is as follows:

|                                 | 2018<br>£ 000 | 2017<br>£ 000 |
|---------------------------------|---------------|---------------|
| <b>Turnover by destination:</b> |               |               |
| UK                              | 8,681         | 9,602         |
| Europe                          | 9,707         | 8,515         |
| Other                           | 3,779         | 4,529         |
|                                 | <u>22,167</u> | <u>22,646</u> |

### 5 Operating profit

Arrived at after charging/(crediting):

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Depreciation expense                             | 361           | 419           |
| Amortisation expense                             | 49            | -             |
| Loss on disposal of fixed assets                 | 8             | -             |
| Defined benefit pension scheme past service cost | 298           | -             |
| Foreign exchange (gains)/losses                  | (21)          | 73            |
| Lease costs                                      | 49            | 50            |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

|                       | 2018         | 2017         |
|-----------------------|--------------|--------------|
|                       | £ 000        | £ 000        |
| Wages and salaries    | 2,777        | 2,533        |
| Social security costs | 325          | 245          |
| Other pension costs   | 148          | 144          |
|                       | <u>3,250</u> | <u>2,922</u> |

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

|                            | 2018      | 2017      |
|----------------------------|-----------|-----------|
|                            | No.       | No.       |
| Production                 | 42        | 42        |
| Administration and support | 38        | 36        |
|                            | <u>80</u> | <u>78</u> |

### 7 Directors' remuneration

The directors' remuneration for the year was as follows:

|              | 2018       | 2017       |
|--------------|------------|------------|
|              | £ 000      | £ 000      |
| Remuneration | <u>115</u> | <u>111</u> |

In respect of the highest paid director:

|   | 2018     | 2017     |
|---|----------|----------|
|   | £ 000    | £ 000    |
| Remuneration  | 88       | 106      |
| Benefits under long-term incentive schemes (excluding shares) | 21       | -        |
| Company contributions to money purchase pension schemes       | <u>6</u> | <u>5</u> |

### 8 Audit fees

|                                     | 2018      | 2017      |
|-------------------------------------|-----------|-----------|
|                                     | £ 000     | £ 000     |
| Audit of these financial statements | <u>45</u> | <u>45</u> |

There were no fees for non-audit services paid to the Company's auditors in the year (2017: £nil).

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 9 Other interest receivable and similar income

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Interest income on unimpaired financial assets | 42            | 20            |
| Interest on pension scheme assets              | 1,903         | 1,915         |
|  | <u>1,945</u>  | <u>1,935</u>  |

Other interest receivable and similar income includes income from group undertakings of £42,000 (2017: £20,000).

### 10 Interest payable and similar expenses

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Interest on pension scheme liabilities | 1,903         | 1,915         |

### 11 Tax on profit

Tax charged in the income statement

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| <b>Current taxation</b>  |               |               |
| Current tax on profits for the year                            | -             | 320           |
| <b>Deferred taxation</b>                                       |               |               |
| Arising from origination and reversal of temporary differences | 366           | 123           |
| Arising from changes in tax rates and laws                     | (38)          | (15)          |
| Adjustments in respect of previous periods                     | 56            | 25            |
| Total deferred taxation  | <u>384</u>    | <u>133</u>    |
| Tax expense in the income statement                            | <u>384</u>    | <u>453</u>    |

*Tax income included in other comprehensive income:*

Current tax: £nil (2017: £320,000). Deferred tax arising from origination and reversal of temporary differences £162,000 (2017: £155,000). Deferred tax arising from change in tax rates (£17,000) (2017: (£18,000)). Total tax income included in other comprehensive income £145,000 (2017: £457,000).



# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 11 Tax on profit (continued)

Tax expense for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%)

The differences are reconciled below:

|   | 2018<br>£ 000 | 2017<br>£ 000 |
|---|---------------|---------------|
| Profit before tax   | <u>380</u>    | <u>2,283</u>  |
| Profit multiplied by the standard rate of tax in the UK of 19% (2017: 19.25%) | 72            | 439           |
| Increase in deferred tax from adjustment for prior periods                    | 56            | 25            |
| Increase from effect of expenses not deductible in determining taxable profit | 5             | 4             |
| Increase arising from group relief tax reconciliation                         | 289           | -             |
| Deferred tax credit relating to changes in tax rates or laws                  | <u>(38)</u>   | <u>(15)</u>   |
| Total tax charge  | <u>384</u>    | <u>453</u>    |

The standard rate of corporation tax in the United Kingdom for the year is 19.00% (2017: 19.25%). The Finance Act 2016 enacted a reduction in the main rate to 17% with effect from 1 April 2020. Deferred tax has therefore been provided at a rate of 17%.

#### Deferred tax

Deferred tax assets

| 2018                         | Asset<br>£ 000 |
|------------------------------|----------------|
| Tax losses carry-forwards    | 335            |
| Accelerated tax depreciation | 242            |
| Pension benefit obligations  | -              |
| Accruals                     | <u>67</u>      |
|                              | <u>644</u>     |
|                              |                |
| 2017                         | Asset<br>£ 000 |
| Tax losses carry-forwards    | 340            |
| Accelerated tax depreciation | 394            |
| Pension benefit obligations  | -              |
| Accruals                     | <u>149</u>     |
|                              | <u>883</u>     |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 11 Tax on profit (continued)

Deferred tax movement during the year:

|                              | At 1 January<br>2018<br>£ 000 | Recognised in<br>income<br>statement<br>£ 000 | Recognised in<br>other<br>comprehensive<br>income<br>£ 000 | At<br>31 December<br>2018<br>£ 000 |
|------------------------------|-------------------------------|---|--|------------------------------------|
| Tax losses carry-forwards    | 340                           | (5)   | -  | 335                                |
| Accelerated tax depreciation | 394                           | (152)   | -  | 242                                |
| Pension benefit obligations  | -                             | (145)   | 145  | -                                  |
| Accruals                     | 149                           | (82)  | -  | 67                                 |
| Net tax assets/(liabilities) | <u>883</u>                    | <u>(384)</u>                                  | <u>145</u>   | <u>644</u>                         |

Deferred tax movement during the prior year:

|                              | At 1 January<br>2017<br>£ 000 | Recognised in<br>income<br>statement<br>£ 000 | Recognised in<br>other<br>comprehensive<br>income<br>£ 000 | At<br>31 December<br>2017<br>£ 000 |
|------------------------------|-------------------------------|---|--|------------------------------------|
| Tax losses carry-forwards    | 358                           | (18)  | -  | 340                                |
| Accelerated tax depreciation | 494                           | (100)   | -  | 394                                |
| Pension benefit obligations  | -                             | (457)   | 457  | -                                  |
| Accruals                     | 27                            | 122   | -  | 149                                |
| Net tax assets/(liabilities) | <u>879</u>                    | <u>(453)</u>                                  | <u>457</u>   | <u>883</u>                         |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred capital tax assets of £33,000 (2017: £33,000) in respect of capital losses amounting to £194,000 (2017: £194,000) that can be carried forward against future taxable income. There is no expiry date on tax losses carried forward.

## 12 Pension and other schemes

## Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £148,000 (2017: £144,000).

## Defined benefit pension schemes

## 1) Baxenden Chemicals Limited Family Security Plan

LANXESS Urethanes UK Limited, ("the Company"), operates a defined benefit pension arrangement called the Baxenden Chemicals Limited Family Security Plan ("the Scheme"). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The Scheme has a balance sheet surplus at 31 December 2018. As for last year's disclosure, the surplus has been restricted to zero on the basis that the Scheme is closed to future service accrual and the Company is only allowed to recognise a surplus in its balance sheet if it can use the surplus to generate a future economic benefit for itself.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004.

The scheme is managed by a board of Trustees appointed in part by the Company and part from elections by members of the scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

The scheme closed to future benefit accrual with effect from 31 January 2014, although a link to Final Pensionable Salary at the date a member leaves employment has been retained. There were no scheme amendments, curtailments or settlements during the period under review.

A valuation of the scheme is carried out at least every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

Contributions paid to the pension scheme in 2018 were £349,000 (2017: £909,000).

The expected contributions to the plan for the next reporting period are £349,000.

The scheme was most recently valued on 1 December 2018. The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation, which must be carried out at least once every three years. The next valuation of the scheme is due as at 1 December 2021.

## Risks

## Investment risk

The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if deficits emerge.

## Interest risk

The scheme's liabilities are assessed using market yields on high grade corporate bonds to discount the liabilities. As the Scheme holds different assets such as equities the value of the assets and liabilities may not move in the same way.

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### *Inflation risk*

A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

#### *Life expectancy risk*

In the event that members live longer than assumed a deficit will emerge in the Scheme.

#### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the statement of financial position are as follows:

|   | 2018<br>£ 000 | 2017<br>£ 000 |
|---|---------------|---------------|
| Fair value of scheme assets                       | 33,907        | 35,415        |
| Present value of scheme liabilities               | (30,075)      | (32,265)      |
|   | 3,832         | 3,150         |
| Effect of net asset ceiling                       | (3,832)       | (3,150)       |
| Defined benefit pension scheme surplus recognised | -             | -             |

#### *Scheme assets*

Changes in the fair value of scheme assets are as follows:

|                              | 2018<br>£ 000 | 2017<br>£ 000 |
|------------------------------|---------------|---------------|
| Fair value at start of year  | 35,415        | 32,832        |
| Interest income              | 916           | 917           |
| Remeasurement (losses)/gains | (2,052)       | 1,849         |
| Employer contributions       | 349           | 909           |
| Benefits paid                | (721)         | (1,092)       |
| Fair value at end of year    | 33,907        | 35,415        |

#### *Analysis of assets*

The major categories of scheme assets are as follows:

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Cash and cash equivalents                        | 97            | 21            |
| Fiduciary Management arrangement with Mercer LLC | 33,810        | 35,394        |
|  | 33,907        | 35,415        |

#### *Actual return on scheme's assets*

|                                       | 2018<br>£ 000 | 2017<br>£ 000 |
|---------------------------------------|---------------|---------------|
| Actual (loss)/return on scheme assets | (1,136)       | 2,766         |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

#### *Scheme liabilities*

Changes in the present value of scheme liabilities are as follows:

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Present value at start of year   | 32,265        | 31,307        |
| Past service cost  | 298           | -             |
| Remeasurement (losses)/gains arising from changes in financial assumptions | (2,597)       | 1,189         |
| Interest cost  | 830           | 861           |
| Benefits paid  | (721)         | (1,092)       |
| Present value at end of year   | <u>30,075</u> | <u>32,265</u> |

#### *Principal actuarial assumptions*

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

|                         | 2018<br>%   | 2017<br>%   |
|-------------------------|-------------|-------------|
| Mortality rate          | 1.25        | 1.25        |
| Discount rate           | 2.90        | 2.60        |
| Future salary increases | 4.05        | 3.85        |
| Inflation (RPI)         | 3.55        | 3.35        |
| Inflation (CPI)         | <u>2.55</u> | <u>2.35</u> |

#### *Amounts recognised in the income statement*

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| <b>Amounts recognised in operating profit</b>        |               |               |
| Past service cost                                    | 298           | -             |
| <b>Amounts recognised in finance income or costs</b> |               |               |
| Net interest   | <u>86</u>     | <u>56</u>     |
| Total recognised in the income statement             | <u>384</u>    | <u>56</u>     |

The past service cost charge of £298,000 relates to the requirement to equalise benefits between men and women to allow for differences in the Guaranteed Minimum Pension (GMP).

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### *Amounts taken to the Statement of Comprehensive Income*

|   | 2018<br>£ 000  | 2017<br>£ 000 |
|---|----------------|---------------|
| Actuarial gains arising from changes in demographic assumptions             | 1,494          | -             |
| Actuarial losses/(gains) arising from changes in financial assumptions      | 1,103          | (1,189)       |
| (Loss)/Return on plan assets, excluding amounts included in interest income | <u>(2,052)</u> | <u>1,849</u>  |
| Amounts recognised in the Statement of Comprehensive Income                 | <u>545</u>     | <u>660</u>    |

#### History of experience gains and losses

|                            | 2018<br>£ 000 | 2017<br>£ 000 | 2016<br>£ 000 | 2015<br>£ 000 | 2014<br>£ 000 |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Defined benefit obligation | (30,075)      | (32,265)      | (31,307)      | (24,220)      | (24,780)      |
| Fair value of plan assets  | <u>33,907</u> | <u>35,415</u> | <u>32,832</u> | <u>25,778</u> | <u>25,169</u> |
| Surplus                    | <u>3,832</u>  | <u>3,150</u>  | <u>1,525</u>  | <u>1,558</u>  | <u>389</u>    |

#### Experience adjustments

|   | 2018<br>£ 000/% | 2017<br>£ 000/% | 2016<br>£ 000/% | 2015<br>£ 000/% | 2014<br>£ 000/% |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Experience adjustments on scheme liabilities gain/(loss)          | -               | -               | 755             | -               | 8               |
| As a percentage of present value of plan liabilities              | - %             | - %             | 2 %             | - %             | - %             |
| Changes in assumptions used to value scheme liabilities gain/loss | 2,597           | (1,189)         | (7,408)         | 1,078           | (3,117)         |
| Experience adjustments on scheme assets (loss)/gain               | (2,052)         | 1,849           | 5,795           | (652)           | 3,991           |
| As a percentage of scheme assets                                  | <u>(6) %</u>    | <u>5 %</u>      | <u>18 %</u>     | <u>(3) %</u>    | <u>16 %</u>     |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

| Adjustment to discount rate                   | + 0.25%<br>£ 000  | 2018          |                   |        | 2017          |                   |  |
|---|-------------------|---------------|-------------------|--------|---------------|-------------------|--|
|   |                   | 0.0%<br>£ 000 | - 0.25%<br>£ 000  |        | 0.0%<br>£ 000 | - 0.25%<br>£ 000  |  |
| Present value of total obligation             | 28,575            | 30,075        | 31,682            | 30,547 | 32,265        | 34,114            |  |
| Adjustment to rate of inflation               | + 0.25%<br>£ 000  | 2018          |                   |        | 2017          |                   |  |
|   |                   | 0.0%<br>£ 000 | - 0.25%<br>£ 000  |        | 0.0%<br>£ 000 | - 0.25%<br>£ 000  |  |
| Present value of total obligation             | 31,031            | 30,075        | 29,122            | 33,360 | 32,265        | 31,373            |  |
| Adjustment to mortality age rating assumption | + 1 Year<br>£ 000 | 2018          |                   |        | 2017          |                   |  |
|   |                   | None<br>£ 000 | - 1 Year<br>£ 000 |        | None<br>£ 000 | - 1 Year<br>£ 000 |  |
| Present value of total obligation             | 29,079            | 30,075        | 31,069            | 31,185 | 32,265        | 33,348            |  |

#### 2) Baxenden Chemicals Limited Retirement Benefit Scheme

LANXESS Urethanes UK Limited, ("the Company"), operates a defined benefit pension arrangement called the Baxenden Chemicals Limited Retirement Benefits Scheme ("the Scheme"). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The Scheme has a balance sheet surplus at December 31 2018. As for last year's disclosure, the surplus has been restricted to zero on the basis that the Scheme is closed to future service accrual and the Company is only allowed to recognise a surplus in its balance sheet if it can use the surplus to generate a future economic benefit for itself.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004.

The scheme is managed by a board of Trustees appointed in part by the Company and part from elections by members of the scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

The scheme closed to future benefit accrual with effect from 31 January 2014, although a link to Final Pensionable Salary at the date a member leaves employment has been retained. There were no scheme amendments, curtailments or settlements during the period under review.

A valuation of the scheme is carried out at least every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

Contributions paid to the pension scheme in 2018 were £801,000 (2017: £1,561,000).

The expected contributions to the plan for the next reporting period are £801,000.

The scheme was most recently valued on 1 December 2018. The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation, which must be carried out at least once every three years. The next valuation of the scheme is due as at 1 December 2021.

#### Risks

##### *Investment risk*

The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if deficits emerge.

##### *Interest risk*

The scheme's liabilities are assessed using market yields on high corporate bonds to discount the liabilities. As the Scheme holds different assets such as equities the value of the assets and liabilities may not move in the same way.

##### *Inflation risk*

A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

##### *Life expectancy risk*

In the event that members live longer than assumed a deficit will emerge in the Scheme.

#### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the statement of financial position are as follows:

|   | 2018<br>£ 000 | 2017<br>£ 000 |
|---|---------------|---------------|
| Fair value of scheme assets                       | 36,985        | 37,923        |
| Present value of scheme liabilities               | (33,776)      | (35,790)      |
|   | 3,209         | 2,133         |
| Effect of net asset ceiling                       | (3,209)       | (2,133)       |
| Defined benefit pension scheme surplus recognised | -             | -             |

#### *Scheme assets*

Changes in the fair value of scheme assets are as follows:

|                              | 2018<br>£ 000 | 2017<br>£ 000 |
|------------------------------|---------------|---------------|
| Fair value at start of year  | 37,923        | 36,041        |
| Interest income              | 987           | 998           |
| Remeasurement (losses)/gains | (1,994)       | 1,653         |
| Employer contributions       | 801           | 1,561         |
| Benefits paid                | (732)         | (2,330)       |
| Fair value at end of year    | 36,985        | 37,923        |



# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### *Analysis of assets*

The major categories of scheme assets are as follows:

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| Cash and cash equivalents                        | 60            | 81            |
| Fiduciary Management arrangement with Mercer LLC | 36,925        | 37,842        |
|  | <u>36,985</u> | <u>37,923</u> |

#### *Actual return on scheme's assets*

|                                       | 2018<br>£ 000  | 2017<br>£ 000 |
|---------------------------------------|----------------|---------------|
| Actual (loss)/return on scheme assets | <u>(1,007)</u> | <u>2,651</u>  |

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

#### *Scheme liabilities*

Changes in the present value of scheme liabilities are as follows:

|  | 2018<br>£ 000 | 2017<br>£ 000  |
|--|---------------|----------------|
| Present value at start of year   | 35,790        | 36,020         |
| Remeasurement gains arising from changes in demographic assumptions        | (1,558)       | -              |
| Remeasurement (losses)/gains arising from changes in financial assumptions | (645)         | 1,124          |
| Interest cost  | 921           | 976            |
| Benefits paid  | <u>(732)</u>  | <u>(2,330)</u> |
| Present value at end of year   | <u>33,776</u> | <u>35,790</u>  |

#### *Principal actuarial assumptions*

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

|                          | 2018<br>%   | 2017<br>%   |
|--------------------------|-------------|-------------|
| Mortality rate           | 1.25        | 1.25        |
| Discount rate            | 2.90        | 2.60        |
| Future pension increases | 3.50        | 3.30        |
| Inflation (RPI)          | 3.55        | 3.35        |
| Inflation (CPI)          | <u>2.55</u> | <u>2.35</u> |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### *Amounts recognised in the income statement*

|  | 2018<br>£ 000 | 2017<br>£ 000 |
|--|---------------|---------------|
| <b>Amounts recognised in operating profit</b>        |               |               |
| Recognised in arriving at operating profit           | -             | -             |
| <b>Amounts recognised in finance income or costs</b> |               |               |
| Net interest   | 66            | 22            |
| Total recognised in the income statement             | 66            | 22            |

#### *Amounts taken to the Statement of Comprehensive Income*

|   | 2018<br>£ 000 | 2017<br>£ 000 |
|---|---------------|---------------|
| Actuarial gains arising from changes in demographic assumptions             | 1,558         | -             |
| Actuarial gains/(losses) arising from changes in financial assumptions      | 645           | (1,124)       |
| (Loss)/Return on plan assets, excluding amounts included in interest income | (1,994)       | 1,653         |
| Amounts recognised in the Statement of Comprehensive Income                 | 209           | 529           |

#### **History of experience gains and losses**

|                            | 2018<br>£ 000 | 2017<br>£ 000 | 2016<br>£ 000 | 2015<br>£ 000 | 2014<br>£ 000 |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Defined benefit obligation | (33,776)      | (35,790)      | (36,020)      | (27,992)      | (28,529)      |
| Fair value of plan assets  | 36,985        | 37,923        | 36,041        | 28,585        | 29,131        |
| Surplus                    | 3,209         | 2,133         | 21            | 593           | 602           |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 12 Pension and other schemes (continued)

#### Experience adjustments

|   | 2018<br>£ 000/% | 2017<br>£ 000/% | 2016<br>£ 000/% | 2015<br>£ 000/% | 2014<br>£ 000/% |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Experience adjustments on scheme liabilities gain                   | -               | -               | 517             | -               | 10              |
| As a percentage of present value of plan liabilities                | - %             | - %             | 1 %             | - %             | - %             |
| Changes in assumptions used to value scheme liabilities gain/(loss) | 645             | (1,124)         | (8,186)         | 776             | (2,692)         |
| Experience adjustments on scheme assets (loss)/gain                 | (1,994)         | 1,653           | 6,508           | (1,249)         | 3,550           |
| As a percentage of scheme assets                                    | <u>(5) %</u>    | <u>4 %</u>      | <u>18 %</u>     | <u>(4) %</u>    | <u>1 %</u>      |

#### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

|  |                 | 2018          |                 |                 | 2017          |                 |
|--|-----------------|---------------|-----------------|-----------------|---------------|-----------------|
| <b>Adjustment to discount rate</b>                   | <b>+ 0.25%</b>  | <b>0.0%</b>   | <b>- 0.25%</b>  | <b>+ 0.25%</b>  | <b>0.0%</b>   | <b>- 0.25%</b>  |
|  | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    |
| Present value of total obligation                    | <u>32,176</u>   | <u>33,776</u> | <u>35,488</u>   | <u>33,977</u>   | <u>35,790</u> | <u>37,738</u>   |
|  |                 | 2018          |                 |                 | 2017          |                 |
| <b>Adjustment to rate of inflation</b>               | <b>+ 0.25%</b>  | <b>0.0%</b>   | <b>- 0.25%</b>  | <b>+ 0.25%</b>  | <b>0.0%</b>   | <b>- 0.25%</b>  |
|  | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    |
| Present value of total obligation                    | <u>35,456</u>   | <u>33,776</u> | <u>32,146</u>   | <u>37,647</u>   | <u>35,790</u> | <u>34,236</u>   |
|  |                 | 2018          |                 |                 | 2017          |                 |
| <b>Adjustment to mortality age rating assumption</b> | <b>+ 1 Year</b> | <b>None</b>   | <b>- 1 Year</b> | <b>+ 1 Year</b> | <b>None</b>   | <b>- 1 Year</b> |
|  | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    | <b>£ 000</b>    | <b>£ 000</b>  | <b>£ 000</b>    |
| Present value of total obligation                    | <u>32,591</u>   | <u>33,776</u> | <u>34,961</u>   | <u>34,517</u>   | <u>35,790</u> | <u>37,068</u>   |

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 13 Intangible assets

|                          | Other<br>intangible<br>assets<br>£ 000 | Total<br>£ 000 |
|--------------------------|--|----------------|
| <b>Cost or valuation</b> |  |                |
| At 1 January 2018        | 333                                    | 333            |
| Additions                | 484                                    | 484            |
| At 31 December 2018      | 817                                    | 817            |
| <b>Amortisation</b>      |  |                |
| At 1st January 2018      | -                                      | -              |
| Charged during the year  | 49                                     | 49             |
| At 31 December 2018      | 49                                     | 49             |
| <b>Carrying amount</b>   |  |                |
| At 31 December 2018      | 768                                    | 768            |
| At 31 December 2017      | 333                                    | 333            |

Other intangible assets relate to capitalised REACH costs, which is a European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals. It came into force on 1st June 2007 and replaced a number of European Directives and Regulations with a single system.

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 14 Property, plant and equipment

|                                    | Land &<br>Buildings<br>£ 000 | Plant &<br>Machinery<br>£ 000 | Total<br>£ 000 |
|------------------------------------|------------------------------|-------------------------------|----------------|
| <b>Cost or valuation</b>           |                              |                               |                |
| At 1 January 2018                  | 3,313                        | 13,835                        | 17,148         |
| Additions                          | -                            | 918                           | 918            |
| Disposals                          | (60)                         | (41)                          | (101)          |
| Transfers                          | 52                           | (52)                          | -              |
| At 31 December 2018                | <u>3,305</u>                 | <u>14,660</u>                 | <u>17,965</u>  |
| <b>Depreciation and Impairment</b> |                              |                               |                |
| At 1 January 2018                  | 2,086                        | 12,198                        | 14,284         |
| Charge for the year                | 72                           | 289                           | 361            |
| Disposals                          | (52)                         | (41)                          | (93)           |
| At 31 December 2018                | <u>2,106</u>                 | <u>12,446</u>                 | <u>14,552</u>  |
| <b>Carrying amount</b>             |                              |                               |                |
| At 31 December 2018                | <u>1,199</u>                 | <u>2,214</u>                  | <u>3,413</u>   |
| At 31 December 2017                | <u>1,227</u>                 | <u>1,637</u>                  | <u>2,864</u>   |

### 15 Stocks

|                                     | 2018<br>£ 000 | 2017<br>£ 000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables       | 1,435         | 1,809         |
| Work in progress                    | 4             | 5             |
| Finished goods and goods for resale | <u>1,095</u>  | <u>1,068</u>  |
|                                     | <u>2,534</u>  | <u>2,882</u>  |

Stock is stated after provisions for impairment of £152,000 (2017: £161,000).

The cost of stock recognised as an expense in the year amounted to £18,602,000 (2017: £17,771,000).

# LANXESS Urethanes UK Ltd

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 16 Debtors

|                                    | 2018          | 2017          |
|------------------------------------|---------------|---------------|
|                                    | £ 000         | £ 000         |
| Trade receivables                  | 3,244         | 2,991         |
| Amounts owed by group undertakings | 6,624         | 8,646         |
| Prepayments                        | 26            | 21            |
| Other debtors                      | 155           | 421           |
|                                    | <u>10,049</u> | <u>12,079</u> |

Amounts owed by group undertakings are currently subject to interest at 0.6% (2017: 0.5%), unsecured and repayable on demand.

### 17 Creditors: amounts falling due within one year

|                                   | 2018         | 2017         |
|-----------------------------------|--------------|--------------|
|                                   | £ 000        | £ 000        |
| Trade payables                    | 1,086        | 2,438        |
| Accrued expenses                  | 321          | 381          |
| Amounts due to group undertakings | 928          | 431          |
| Social security and other taxes   | -            | 7            |
| Corporation tax                   | 4            | 4            |
|                                   | <u>2,339</u> | <u>3,261</u> |

Amounts due to group undertakings are interest free, unsecured and repayable on demand.

### 18 Called up share capital

#### Allotted, called up and fully paid shares

|                            | 2018         |              | 2017         |              |
|----------------------------|--------------|--------------|--------------|--------------|
|                            | No. 000      | £ 000        | No. 000      | £ 000        |
| Ordinary shares of £1 each | <u>1,800</u> | <u>1,800</u> | <u>1,800</u> | <u>1,800</u> |

## LANXESS Urethanes UK Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 19 Obligations under leases

##### Operating leases

The total future value of minimum lease payments is as follows:

|                      | 2018<br>£ 000 | 2017<br>£ 000 |
|----------------------|---------------|---------------|
| Within one year      | 46            | 9             |
| In two to five years | 168           | 13            |
| In over five years   | 7             | 248           |
|                      | <u>221</u>    | <u>270</u>    |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £49,000 (2017 - £50,000).

#### 20 Parent and ultimate parent undertaking

The ultimate parent company at the year end and the largest group in which these financial statements are consolidated is LANXESS AG.

The address of LANXESS AG is Kennedyplatz 1, Cologne 50569, Germany.

The Company's immediate parent undertaking and the smallest group in which these financial statements are consolidated is LANXESS Solutions US Inc as at 31 December 2018. LANXESS Solutions UK Ltd is the immediate parent undertaking from 14 March 2019.

#### 21 Events after the end of the reporting period

In March 2019 LANXESS Solutions UK Ltd purchased the Company from LANXESS Solutions US Inc for a consideration of £51,537,000.