

Registration number: 00147556

LANXESS Urethanes UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017



LANXESS Urethanes UK Limited

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LANXESS Urethanes UK Limited

Company Information

Directors	John Peter Lord Christopher James Flett Kiern Mark O'Connor
Registered office	Paragon Works Baxenden Lancashire BB5 2SL
Solicitors	Eversheds 1 Earlsfort Center Earlsfort Terrace Dublin 2 Ireland
Bankers	Bank of America 2 King Edward Street London EC1A 1HQ UniCredit Banca Milano Cordusio P.Za Cordusio Italy 20123 Milano MI
Independent Auditors	PricewaterhouseCoopers LLP No. 1 Spinningfields Hardman Square Manchester M3 3EB

LANXESS Urethanes UK Limited

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

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 and includes:

- The maximisation of existing patented technology
- The strong development of new products, patents and markets in the area of Polyurethane surface coatings.
- Continued geographic expansion and use of worldwide network of distributors and agents.
- Targeted capital investment programs.
- Utilisation of the company's strong financial base and strong cash flow.

On 21st April 2017 LANXESS AG successfully completed the acquisition of Chemtura Corporation. In June 2017 the Company changed its name from Baxenden Chemicals Limited to LANXESS Urethanes UK Limited.

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

Performance during 2017

Revenue increased by £3,478,000 compared to previous year, driven by stronger demand as a consequence of a weaker pound. However, gross margins declined by 3.50% as the higher cost of imported raw materials were less than offset by the revenue increase.

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

	2017 £ 000	2016 £ 000
Turnover	22,646	19,168
Gross profit	3,896	3,610
Operating profit	2,263	2,055
Profit after tax	<u>1,830</u>	<u>1,604</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 98% in 2017 (2016: 98%).

Safety performance	2017	2016
Plant hours worked	132,538	99,031
First aid cases	1	-
Lost time accidents	-	-
No. of lost work days	<u>-</u>	<u>-</u>

LANXESS Urethanes UK Limited

Strategic Report for the Year Ended 31 December 2017

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 COMAH regulations, the Company takes all necessary measures to prevent major accidents involving dangerous substances and aims to limit the consequences to people and the environment of any major accidents which may occur in the future. 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.

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.

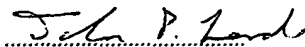
Mitigating actions

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 Limited

Strategic Report for the Year Ended 31 December 2017

Approved by the Board on 24.9.18 and signed on its behalf by:



John Peter Lord
Director

Paragon Works
Baxenden
Lancashire
BB5 2SI

LANXESS Urethanes UK Limited

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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

B Flaherty (resigned 21 April 2017)

Christopher James Flett (appointed 21 April 2017)

Kiern Mark O'Connor (appointed 21 April 2017)

Charitable and political contributions

The Company made no political contributions during the year (2016: £nil). Donations to UK Charities amounted to £2,250 (2016: £nil).

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 (2016: £nil) have been incurred in relation to research and development.

Future developments

Although the global economy continued to strengthen overall in 2017, growth within the EU remains patchy and risks to economic growth remain.

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2017 (2016: £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.

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.

LANXESS Urethanes UK Limited

Directors' Report for the Year Ended 31 December 2017

Disclosure of information to the auditors

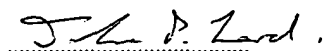
The directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information of which the auditors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

Reappointment of auditors

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

Following the change in ownership, the new ultimate parent company's auditors, PricewaterhouseCoopers LLP, were appointed as auditors.

Approved by the Board on 24.9.18 and signed on its behalf by:



John Peter Lord
Director

LANXESS Urethanes UK Limited

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.

LANXESS Urethanes UK Limited

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 Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit 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 2017; 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

We have nothing to report in respect of the following matters in relation to which 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 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.

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.

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 Limited

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 2017 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 stated 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 Limited

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. 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
September 2018

Date:..... 26/9/18

LANXESS Urethanes UK Limited

Profit and Loss Account for the Year Ended 31 December 2017

		2017	2016
	Note	£ 000	£ 000
Turnover	4	22,646	19,168
Cost of sales		<u>(18,750)</u>	<u>(15,558)</u>
Gross profit		3,896	3,610
Distribution costs		(564)	(462)
Administrative expenses		(1,069)	(950)
Impairment of assets		<u>-</u>	<u>(143)</u>
Operating profit	5	2,263	2,198
Other interest receivable and similar income	9	1,935	2,194
Interest payable and similar expenses	10	<u>(1,915)</u>	<u>(2,176)</u>
Profit before tax		2,283	2,073
Tax on profit	11	<u>(453)</u>	<u>(469)</u>
Profit for the financial year		<u><u>1,830</u></u>	<u><u>1,604</u></u>

The above results were derived from continuing operations.

LANXESS Urethanes UK Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Profit for the financial year		<u>1,830</u>	<u>1,604</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit asset	12	1,189	(1,865)
Changes in effect of asset ceiling		<u>(3,659)</u>	<u>715</u>
		<u>(2,470)</u>	<u>(1,150)</u>
Current tax on defined benefit pension scheme	11	321	230
Deferred tax on defined benefit pension scheme		<u>136</u>	<u>-</u>
		<u>457</u>	<u>230</u>
Total comprehensive (expense)/income for the year		<u>(183)</u>	<u>684</u>

The notes on pages 15 to 37 form an integral part of these financial statements.

LANXESS Urethanes UK Limited

**(Registration number: 00147556)
Balance Sheet as at 31 December 2017**

	Note	2017 £ 000	2016 £ 000
Non-current assets			
Intangible assets	13	333	-
Property, plant and equipment	14	2,864	2,915
Deferred tax assets	11	883	879
		<u>4,080</u>	<u>3,794</u>
Current assets			
Stocks	15	2,882	2,665
Debtors	16	12,079	11,946
		14,961	14,611
Creditors: amounts falling due within one year	17	(3,261)	(2,286)
Net current assets		<u>11,700</u>	<u>12,325</u>
Total assets less current liabilities		15,780	16,119
Other provisions	18	-	(156)
Net assets		<u>15,780</u>	<u>15,963</u>
Capital and reserves			
Called up share capital	19	1,800	1,800
Share premium reserve		85	85
Retained earnings		13,895	14,078
Shareholders' funds		<u>15,780</u>	<u>15,963</u>

The financial statements were approved by the Board of Directors on 24.9.18 and signed on its behalf by:

John P. Lord

John Peter Lord
Director

LANXESS Urethanes UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 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

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2016	1,800	85	13,394	15,279
Profit for the year	-	-	1,604	1,604
Other comprehensive loss	-	-	(920)	(920)
Total comprehensive income	-	-	684	684
At 31 December 2016	1,800	85	14,078	15,963

The notes on pages 15 to 37 form an integral part of these financial statements.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

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 21.

Changes in accounting policy

New standards, interpretations and amendments effective

No new accounting standards, or amendments to accounting standards that impact these financial statements have become effective during the year ended 31 Dec 2017.

The following new standards, interpretations and amendments, which have not been applied in these financial statements may have an effect on the future financial statements:

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Financial instruments

In July 2014, the ISA published the final version of IFRS 9. This contains revised regulations for the classification and measurement of financial assets and liabilities as well as rules on the impairment of financial instruments. Besides already incurred losses, the expected credit loss model is used to anticipate and recognize expected future losses. Further, the standard introduces new rules on hedge accounting. The new standard was endorsed by the E.U. in November 2016 and is to be applied for annual reports beginning on or after 1 January 2018. The LANXESS Group utilizes the exemption from retrospective application of the standard and applies it prospectively from 1 January 2018, for the classification, measurement and impairment of financial instruments. In contrast, the new requirements for hedge accounting will be applied retrospectively. The IASB published further amendments to IFRS 9 in October 2017. They relate to early repayment options with negative prepayment penalties and are to be applied for annual periods beginning on or after 1 January 2019.

The conversion to the new IFRS 9 requirement is expected to not materially impact LANXESS Urethanes UK Ltd.

Revenue from contracts with customers

The IASB published the new standard IFRS 15 on May 28, 2014. IFRS 15 primarily supersedes IAS 11 and IAS 18 and introduces a five step-step model containing basic principles for revenue recognition. The basic principles relate, in particular, to the allocation of revenues to distinct performance obligations and the associated revenues and rules on the timing of revenue recognition. The standard also introduces contract assets and contract liabilities as line items in the statement of financial position for differences between the revenue recognised in accordance with IFRS 15 and goods and services invoiced. The standard also contains further rules on specific issues and requires additional disclosures in the notes on the type, level, timing and uncertainties relating to revenues from contracts with customers. As a result of the amendment to IFRS 15 published in September 2015, the date of initial application has been postponed from 1 January 2017, to annual periods beginning on or after 1 January 2018. In April 2016, the IASB published further clarifications relating to simplifications for first- time application, the identification of performance obligations, the definition of principal versus agent, and recognition of license revenues. While the E.U. endorsed the standard in September 2016, the clarifications were endorsed in October 2017.

Management are in the process of assessing the impact of IFRS 15 on the local contracts. The application of the new rules from 1 January 2018 is not expected to have significant effects compared to the current recognition of revenue.

Leases

On 13 January 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. Under IFRS 16, lessees will recognize all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. Depreciation and amortization on the capitalised right-of-use asset and interest expense for compounding the lease liabilities are recorded in the income statement. For lessees, the distinction between operating and finance leases is abolished. The new standard also contains options for the treatment of short-term leases and leases of low value. If these options are applied, the cost of these leases are expensed immediately. There are no significant changes for lessors. The new standard is to be applied for annual periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 is applied. The standard was endorsed by the E.U. in October 2017. The LANXESS Group will apply the new standard from 1 January 2019.

There is a project under way to assess the impact IFRS 16 is likely to have on the financial statements.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company activities.

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. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

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 Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position 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
Land & Buildings	Equal instalments over 40 years
Plant & Machinery	Equal instalments between 3 and 15 years

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

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.

Trade receivables are recognised initially at fair value. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

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.

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 Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

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 9 for the disclosures of the defined benefit pension scheme.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

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 Revenue

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

	2017 £ 000	2016 £ 000
Turnover by destination:		
UK	9,602	8,106
Europe	8,515	7,529
Other	4,529	3,533
	<u>22,646</u>	<u>19,168</u>

5 Operating profit

Arrived at after charging/(crediting):

	2017 £ 000	2016 £ 000
Depreciation expense	419	505
Gain on disposal of fixed assets	-	(26)
Foreign exchange losses/(gains)	73	(33)
Impairment of assets	-	143
Lease costs	<u>50</u>	<u>69</u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

6 Staff costs

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

	2017	2016
	£ 000	£ 000
Wages and salaries	2,533	2,394
Social security costs	245	225
Other pension costs, defined contribution scheme	144	132
	<u>2,922</u>	<u>2,751</u>

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

	2017	2016
	No.	No.
Production	42	41
Administration and support	36	36
	<u>78</u>	<u>77</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017	2016
	£ 000	£ 000
Remuneration	<u>111</u>	<u>97</u>

In respect of the highest paid director:

	2017	2016
	£ 000	£ 000
Remuneration	106	92
Company contributions to money purchase pension schemes	<u>5</u>	<u>5</u>

8 Audit fees

	2017	2016
	£ 000	£ 000
Audit of these financial statements	<u>45</u>	<u>35</u>

There were no fees for non-audit services paid to the Company's auditors in the year.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

9 Other interest receivable and similar income

	2017 £ 000	2016 £ 000
Interest income on unimpaired financial assets	20	18
Interest on pension scheme assets	1,915	2,176
	<u>1,935</u>	<u>2,194</u>

Other interest receivable and similar income includes income from group undertakings of £20,000 (2016: £18,000).

10 Interest payable and similar expenses

	2017 £ 000	2016 £ 000
Interest on pension scheme liabilities	1,915	2,176

11 Tax on profit

Tax charged in the income statement

	2017 £ 000	2016 £ 000
Current taxation		
Current tax on profits for the year	320	234
Deferred taxation		
Arising from origination and reversal of temporary differences	123	204
Arising from changes in tax rates and laws	(15)	31
Adjustments in respect of previous periods	25	-
Total deferred taxation	<u>133</u>	<u>235</u>
Tax expense in the income statement	<u>453</u>	<u>469</u>

Tax income included in other comprehensive income:

Current tax: £321,000 (2016: £230,000). Deferred tax arising from origination and reversal of temporary differences £154,000 (2016: £nil). Deferred tax arising from change in tax rates (£18,000) (2016: £nil). Total tax income included in other comprehensive income £457,000 (2016: £230,000).

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

11 Tax on profit (continued)

Tax expense for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19.25% (2016: 20%)

The differences are reconciled below:

	2017	2016
	£ 000	£ 000
Profit before tax	<u>2,283</u>	<u>2,073</u>
Profit multiplied by the standard rate of tax in the UK of 19.25% (2016: 20%)	439	415
Increase in deferred tax from adjustment for prior periods	25	-
Decrease from effect of revenues exempt from taxation	-	(2)
Increase from effect of expenses not deductible in determining taxable profit	4	25
Deferred tax (credit) / expense relating to changes in tax rates or laws	<u>(15)</u>	<u>31</u>
Total tax charge	<u>453</u>	<u>469</u>

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017,

Deferred tax

Deferred tax assets

	Asset
	£ 000
2017	
Tax losses carry-forwards	340
Accelerated tax depreciation	394
Accruals	149
Pension benefit obligations	<u>-</u>
	<u>883</u>
2016	
Tax losses carry-forwards	358
Accelerated tax depreciation	494
Accruals	27
Pension benefit obligations	<u>-</u>
	<u>879</u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

11 Tax on profit (continued)

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Tax losses carry-forwards	644	(286)	358
Accelerated tax depreciation	421	73	494
Accruals	49	(22)	27
Pension benefit obligations	-	-	-
Net tax assets/(liabilities)	<u>1,114</u>	<u>(235)</u>	<u>879</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 (2016: £33,000) in respect of capital losses amounting to £194,000 (2016: £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 £143,000 (2016: £132,000).

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

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 2017. 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 2017 were £909,000 (2016: £716,000).

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

The scheme was most recently valued on 1 December 2015. 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 2018.

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.

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.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2017 £ 000	2016 £ 000
Fair value of scheme assets	35,415	32,832
Present value of scheme liabilities	<u>(32,265)</u>	<u>(31,307)</u>
	3,150	1,525
Effect of net asset ceiling	<u>(3,150)</u>	<u>(1,525)</u>
Defined benefit pension scheme surplus recognised	<u><u>-</u></u>	<u><u>-</u></u>

Scheme assets

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

	2017 £ 000	2016 £ 000
Fair value at start of year	32,832	25,778
Interest income	917	1,036
Remeasurement (losses)/gains	1,849	5,795
Employer contributions	909	716
Benefits paid	<u>(1,092)</u>	<u>(493)</u>
Fair value at end of year	<u><u>35,415</u></u>	<u><u>32,832</u></u>

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Cash and cash equivalents	21	85
Fiduciary Management arrangement with Mercer LLC	<u>35,394</u>	<u>32,747</u>
	<u><u>35,415</u></u>	<u><u>32,832</u></u>

Actual return on scheme's assets

	2017 £ 000	2016 £ 000
Actual return on scheme assets	<u><u>2,766</u></u>	<u><u>6,831</u></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.

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Scheme liabilities

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

	2017 £ 000	2016 £ 000
Present value at start of year	31,307	24,220
Remeasurement gains arising from changes in demographic assumptions	-	(32)
Remeasurement losses arising from changes in financial assumptions	1,189	7,408
Remeasurements gains arising from experience adjustments	-	(755)
Interest cost	861	959
Benefits paid	(1,092)	(493)
Present value at end of year	<u>32,265</u>	<u>31,307</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:

	2017 %	2016 %
Mortality rate	1.25	1.25
Discount rate	2.60	2.80
Future salary increases	3.85	3.90
Inflation (RPI)	3.35	3.40
Inflation (CPI)	<u>2.35</u>	<u>2.40</u>

Amounts recognised in the income statement

	2017 £ 000	2016 £ 000
Amounts recognised in operating profit		
Recognised in arriving at operating profit	<u>-</u>	<u>-</u>
Amounts recognised in finance income or costs		
Net interest	<u>56</u>	<u>77</u>
Total recognised in the income statement	<u>56</u>	<u>77</u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	2017 £ 000	2016 £ 000
Actuarial gains arising from changes in demographic assumptions	-	32
Actuarial losses arising from changes in financial assumptions	(1,189)	(7,408)
Actuarial gains arising from experience adjustments	-	755
Return on plan assets, excluding amounts included in interest income	1,849	5,795
Amounts recognised in the Statement of Comprehensive Income	660	(826)

History of experience gains and losses

	2017 £ 000	2016 £ 000	2015 £ 000	2014 £ 000	2013 £ 000
Defined benefit obligation	(32,265)	(31,307)	(24,220)	(24,780)	(21,206)
Fair value of plan assets	35,415	32,832	25,778	25,169	20,002
Surplus / (Deficit)	3,150	1,525	1,558	389	(1,204)

Experience adjustments

	2017 £ 000/%	2016 £ 000/%	2015 £ 000/%	2014 £ 000/%	2013 £ 000/%
Experience adjustments on scheme liabilities gain/(loss)	-	755	-	8	(61)
As a percentage of present value of plan liabilities	- %	2 %	- %	- %	(3) %
Changes in assumptions used to value scheme liabilities (loss)/gain	(1,189)	(7,408)	1,078	(3,117)	(636)
Experience adjustments on scheme assets gain/(loss)	1,849	5,795	(652)	3,991	1,524
As a percentage of scheme assets	5 %	18 %	(3) %	16 %	8 %

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Sensitivity analysis

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

	2017			2016		
Adjustment to discount rate	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	<u>30,547</u>	<u>32,265</u>	<u>34,114</u>	<u>29,647</u>	<u>31,307</u>	<u>33,096</u>
	2017			2016		
Adjustment to rate of inflation	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	<u>33,360</u>	<u>32,265</u>	<u>31,373</u>	<u>32,320</u>	<u>31,307</u>	<u>30,479</u>
	2017			2016		
Adjustment to mortality age rating assumption	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Present value of total obligation	<u>31,185</u>	<u>32,265</u>	<u>33,348</u>	<u>30,314</u>	<u>31,307</u>	<u>32,301</u>

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 2017. 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 Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Contributions paid to the pension scheme in 2017 were £1,561,000 (2016: £433,500).

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

The scheme was most recently valued on 1 December 2015. 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 2018.

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:

	2017 £ 000	2016 £ 000
Fair value of scheme assets	37,923	36,041
Present value of scheme liabilities	<u>(35,790)</u>	<u>(36,020)</u>
	2,133	21
Effect of net asset ceiling	<u>(2,133)</u>	<u>(21)</u>
Defined benefit pension scheme surplus recognised	<u><u>-</u></u>	<u><u>-</u></u>

Scheme assets

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

	2017 £ 000	2016 £ 000
Fair value at start of year	36,041	28,585
Interest income	998	1,140
Remeasurement gains	1,653	6,508
Employer contributions	1,561	434
Benefits paid	<u>(2,330)</u>	<u>(626)</u>
Fair value at end of year	<u><u>37,923</u></u>	<u><u>36,041</u></u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Cash and cash equivalents	81	44
Fiduciary Management arrangement with Mercer LLC	37,842	35,997
	<u>37,923</u>	<u>36,041</u>

Actual return on scheme's assets

	2017 £ 000	2016 £ 000
Actual return on scheme assets	<u>2,651</u>	<u>7,648</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:

	2017 £ 000	2016 £ 000
Present value at start of year	36,020	27,992
Remeasurement gains arising from changes in demographic assumptions	-	(122)
Remeasurement losses arising from changes in financial assumptions	1,124	8,186
Remeasurement gains arising from experience adjustments	-	(517)
Interest cost	976	1,107
Benefits paid	<u>(2,330)</u>	<u>(626)</u>
Present value at end of year	<u>35,790</u>	<u>36,020</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:

	2017 %	2016 %
Mortality rate	1.25	1.25
Discount rate	2.60	2.80
Future pension increases	3.30	3.35
Inflation (RPI)	3.35	3.40
Inflation (CPI)	<u>2.35</u>	<u>2.40</u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Amounts recognised in the income statement

	2017 £ 000	2016 £ 000
Amounts recognised in operating profit		
Recognised in arriving at operating profit	-	-
Amounts recognised in finance income or costs		
Net interest	22	33
Total recognised in the income statement	22	33

Amounts taken to the Statement of Comprehensive Income

	2017 £ 000	2016 £ 000
Actuarial gains arising from changes in demographic assumptions	-	122
Actuarial losses arising from changes in financial assumptions	(1,124)	(8,186)
Actuarial gains arising from experience adjustments	-	517
Return on plan assets, excluding amounts included in interest income	1,653	6,508
Amounts recognised in the Statement of Comprehensive Income	529	(1,039)

History of experience gains and losses

	2017 £ 000	2016 £ 000	2015 £ 000	2014 £ 000	2013 £ 000
Defined benefit obligation	(35,790)	(36,020)	(27,992)	(28,529)	(25,211)
Fair value of plan assets	37,923	36,041	28,585	29,131	24,491
Surplus / (Deficit)	2,133	21	593	602	(720)

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Experience adjustments

	2017 £ 000/%	2016 £ 000/%	2015 £ 000/%	2014 £ 000/%	2013 £ 000/%
Experience adjustments on scheme liabilities gain/(loss)	-	517	-	10	(657)
As a percentage of present value of plan liabilities	- %	1 %	- %	- %	(3) %
Changes in assumptions used to value scheme liabilities (loss)/gain	(1,124)	(8,186)	776	(2,692)	(1,542)
Experience adjustments on scheme assets gain/(loss)	1,653	6,508	(1,249)	3,550	1,516
As a percentage of scheme assets	<u>4 %</u>	<u>18 %</u>	<u>(4) %</u>	<u>1 %</u>	<u>6 %</u>

Sensitivity analysis

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

		2017			2016	
Adjustment to discount rate	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	<u>33,977</u>	<u>35,790</u>	<u>37,738</u>	<u>34,253</u>	<u>36,020</u>	<u>37,921</u>
		2017			2016	
Adjustment to rate of inflation	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	<u>37,647</u>	<u>35,790</u>	<u>34,236</u>	<u>37,754</u>	<u>36,020</u>	<u>24,568</u>
		2017			2016	
Adjustment to mortality age rating assumption	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Present value of total obligation	<u>34,517</u>	<u>35,790</u>	<u>37,068</u>	<u>37,200</u>	<u>36,020</u>	<u>37,204</u>

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

13 Intangible assets

	Other intangible assets £ 000	Total £ 000
Cost or valuation		
At 1 January 2017	-	-
Additions	333	333
At 31 December 2017	333	333
Carrying amount		
At 31 December 2017	333	333
At 31 December 2016	-	-

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.

14 Property, plant and equipment

	Land & Buildings £ 000	Plant & Machinery £ 000	Total £ 000
Cost or valuation			
At 1 January 2017	3,313	13,488	16,801
Additions	-	371	371
Disposals	-	(24)	(24)
At 31 December 2017	3,313	13,835	17,148
Depreciation and Impairment			
At 1 January 2017	1,998	11,888	13,886
Charge for the year	88	331	419
Disposals	-	(21)	(21)
At 31 December 2017	2,086	12,198	14,284
Carrying amount			
At 31 December 2017	1,227	1,637	2,864
At 31 December 2016	1,315	1,600	2,915

LANXESS Urethanes UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

15 Stocks

	2017	2016
	£ 000	£ 000
Raw materials and consumables	1,809	1,231
Work in progress	5	4
Finished goods and goods for resale	1,068	1,430
	<u>2,882</u>	<u>2,665</u>

Stock is stated after provisions for impairment of £161,000 (2016: £141,000).

The cost of stock recognised as an expense in the year amounted to £17,771,000 (2016: £14,388,000).

16 Debtors

	2017	2016
	£ 000	£ 000
Trade receivables	2,991	2,779
Amounts owed by group undertakings	8,646	8,177
Prepayments	21	47
Other debtors	421	943
	<u>12,079</u>	<u>11,946</u>

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

17 Creditors

	2017	2016
	£ 000	£ 000
Trade payables	2,438	1,391
Accrued expenses	381	145
Amounts due to group undertakings	431	359
Social security and other taxes	7	388
Corporation tax	4	3
	<u>3,261</u>	<u>2,286</u>

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

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Notes to the Financial Statements for the Year Ended 31 December 2017

18 Other provisions

	Other provisions £ 000
At 1 January 2017	156
Decrease in provision from other changes	<u>(156)</u>
At 31 December 2017	<u>-</u>

Provisions for anticipated dilapidation costs were reversed in 2017 following the Lanxess acquisition of Chemtura.

19 Called up share capital

Allotted, called up and fully paid shares

	2017		2016	
	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>

20 Obligations under leases

Operating leases

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

	2017 £ 000	2016 £ 000
Within one year	9	44
In two to five years	13	20
In over five years	<u>248</u>	<u>-</u>
	<u>270</u>	<u>64</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £50,000 (2016 - £69,000)

21 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 is LANXESS Solutions US Inc.