

**Company Registration No 436135**

**PPG ARCHITECTURAL COATINGS UK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2012**

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# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2012**

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**PPG ARCHITECTURAL COATINGS UK LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2012**

**OFFICERS AND PROFESSIONAL ADVISERS**

**Directors**

F Parry  
S Pocock  
R Hemingway  
G Roebuck  
M Hollingworth  
J Metcalf  
V O'Sullivan  
P Lafford

**Registered Office**

Huddersfield Road  
Birstall  
Batley  
WF17 9XA

**Bankers**

Royal Bank of Scotland N V.  
Gustav Mahlerlaan 350  
1082ME Amsterdam  
The Netherlands  
P O Box 12925 1100AX

**Solicitors**

Walker Morris  
Kings Court  
12 King Street  
Leeds LS1 2HL

**Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
1 City Square  
Leeds  
LS1 2AL

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2012

### **Principal activities and business review**

The principal activity of the company remains that of the manufacture and distribution of architectural coatings products to both the Trade and Retail customer segments

The market remains highly competitive. The Trade Paint market showed a small decrease in volume in 2012, down from the small improvement seen in 2011. The retail paint market remains extremely tough with another fall in volume in 2012. PPG sales continued to perform very well, with PPG gaining both volume and value market share in the Trade business for a consecutive year. PPG retail business continued to suffer due to the demise of Focus DIY business, for whom PPG was a supplier. Despite this the company continues to perform extremely well in the 3<sup>rd</sup> party stockist sector through a combination of store expansion activity of key retailers, organic growth and new business won.

The market place in which we operate has been in a sustained period of decline in recent years and we had to further re-size our operation in 2012 to reflect the trading environment. A full review of the business was carried out and a subsequent re-structure implemented. As part of the re-structure, we also transferred back part of the PPG Retail Europe business back from a PPG Group company into the UK & Ireland operation. This will allow us to achieve synergies with our 3<sup>rd</sup> party stockist sector.

We also undertook a detailed review of our Decorating Centre (owned stores) network which resulted in us closing down a small number of our stores. As the company has grown through acquisition over the many years we had a number of stores that were in very close geographical proximity. These were the stores that accounted for the majority of closures in 2012 as we are still able to service our customer base via the remaining stores in the locality.

Two new stores were opened in Wandsworth and Enniskillen (Northern Ireland). We also completed our re-branding of the network to standardise all stores under the "Johnstone's Decorating Centre" name. With a consistent store look we embarked upon a series of radio advertising campaigns for the first time to support key events. At the end of 2012 we had 191 owned stores.

PPG has continued to invest in New Product Development, particularly with the 'Johnstone's Trade' brand. 2012 launches have included Johnstone's Aqua, water based gloss and undercoat, which further enhances our market leading position in water based trim products and Johnstone's Flame Defence System (FDS), a range of flame retardant coatings.

The Johnstone's Paint Trophy continued to build awareness of the Johnstone's brand through completion of its 6<sup>th</sup> season. The competition, for English League 1 and League 2 sides, culminated in the final at Wembley Stadium in March 2012 where Chesterfield FC defeated Swindon Town FC.

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **Going Concern**

The financial statements are prepared on the basis that the company is a going concern, as the directors have reviewed the financial condition of the company and of the PPG group including consideration of future forecasts and uncertainties arising from the current difficult economic environment. The company's parent has provided a letter of support for the period at least 12 months from the date of the audit report sign-off. Based upon this the directors have formed the view that the position of the company and the PPG group is sufficiently strong. Consequently the directors are satisfied it is reasonable to prepare the accounts on a going concern basis.

### **Strategy**

The vision of the company continues to pursue its policy of becoming 'Our customers 1<sup>st</sup> Choice, delivered by 1<sup>st</sup> Class People'.

The company's overriding objective is to achieve attractive and sustainable rates of growth and return, principally through organic growth. The company intends to do this via substantial gains in market share (aim to be #1 in trade by 2013) supported by excellent people as measured by a placing in the Sunday Times Top 50 Best Companies to Work for.

The Strategy is a customer centric approach that we prefer to call "Customer Wow" - the pillars of this strategy are,

- A clear brand and channel strategy,
- The most effective front line - sales people and DC staff;
- Rigorous price control,
- Better products and services, and
- Prudent cost management

### **Results and dividends**

The results of the company show a pre-tax profit of £5.7m (2011: £1.5m)

The directors did not pay an interim dividend during the year ended 31 December 2012 (2011: £nil)

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2012 (2011: £nil)

# PPG ARCHITECTURAL COATINGS UK LIMITED

## DIRECTORS' REPORT (Continued)

### Future outlook

Under the ownership of PPG industries Inc we expect to remain competitive and increase market share in 2013 and beyond, despite the extremely tough and hyper competitive market conditions

Investment in our Decorating Centre network and brands continues to be our focus, to maintain and improve our levels of performance in the future This strategy is fully supported by our parent company

### Principal risks and uncertainties

The UK market remains susceptible to new low cost entrants as there are low barriers to entry In order to mitigate this risk, the company maintains a constant focus on cost management, working closely with customers to identify and share cost savings that are achieved in the supply chain This approach is one of the key pillars of our company strategy

The credit risk on financial assets and liabilities is limited because the company, through parent holding companies, have recourse to long term group borrowings which finance the business Whilst the UK companies continue to make a significant contribution to the financial results of the PPG group, this financing will remain available

Cash flow risk is primarily in the area of foreign exchange exposure, notably with the Euro. This is managed by currency loans funded through the group treasury function

The company has recourse to the group treasury function in order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments

### Key Performance Indicators

The performance for the year together with comparative data is set out in the table below:

	2012	2011	Definition, method of calculation and analysis
Gross profit (%)	41.1%	39.1%	The ratio of gross profit to sales expressed as a percent Gross profit percentage is better due to improved sales volumes coupled with higher selling prices and continued effective cost controls on raw materials
Return on sales (%)	3.0%	0.6%	Operating profit / (loss) expressed as a percentage of sales The improved sales margins has driven the improvement in operating profit
Return on Investment capital	5.8%	1.1%	Operating profit/ (loss) expressed as a percentage of net assets The improved sales margin in the profit and loss although offset by higher overheads has led to the increased return on capital compared to last year

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **Directors**

The directors of the company, who served for the whole of the year ended 31 December 2012 and up to the date of this report, except where stated, were as follows

F Parry  
S Pocock  
R Hemingway  
G Roebuck  
M Hollingworth  
J Metcalf  
V O'Sullivan  
P Lafford

### **Research and development**

The board places a high priority on research and technological innovation, which serves the needs of customers. The cost of such work is disclosed in note 4 to the accounts.

### **Employment policies**

Employees or their representatives are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. It is the policy of the company to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the company, as well as generally through training and career development.

Health and safety at work has always been of prime concern. Continuous efforts are made to improve existing measures and to stimulate interest in safety in each employee.

### **Environmental policies**

The company continues to develop its sustainability and plans to introduce further improvements in 2013.

### **Supplier payment policy**

The company's policy is to settle transactions according to payment terms agreed with suppliers when accounts are opened. Trade creditors of the company at 31 December 2012 were equivalent to 78 days purchases (2011: 86 days), based on the average daily amount invoiced by suppliers during the year.

### **Charitable and political contributions**

During the year the company made charitable donations of £17,750 (2011: £19,750), principally to local charities serving the communities in which the company operates. The company made no political contributions.

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **Statement of disclosure of information to auditor**

The Directors of the company at the date of this report confirm that

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in Accordance with the provisions of section 418 of the Companies Act 2006

### **Auditor**

After a Group tendering process PricewaterhouseCoopers LLP will be appointed as the Company's auditor and Deloitte LLP will resign



**F Parry**  
**Director**

27 September 2013



## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

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

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED**

We have audited the financial statements of PPG Architectural Coatings UK Limited for the Year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**PPG ARCHITECTURAL COATINGS UK LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PPG  
ARCHITECTURAL COATINGS UK LIMITED**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



David Johnson B.A , F C A (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Leeds, United Kingdom

**27** September 2013

# PPG ARCHITECTURAL COATINGS UK LIMITED

## PROFIT AND LOSS ACCOUNT

Year Ended 31 December 2012

	Notes	2012 £'000	2011 £'000
<b>Turnover</b>		<b>196,244</b>	181,495
Cost of sales	3	(115,574)	(110,452)
<b>Gross profit</b>		<b>80,670</b>	71,043
Net operating expenses	3	(74,735)	(69,992)
<b>Operating profit / (loss)</b>	4	<b>5,935</b>	1,051
Interest receivable and similar income	5	541	914
Interest payable and similar charges	6	(1,016)	(785)
Other finance income / (costs)	7	224	327
<b>Profit on ordinary activities before taxation</b>		<b>5,684</b>	1,507
Tax on ordinary activities	8	(953)	3,068
<b>Profit for the financial year</b>	18	<b>4,731</b>	4,575

All of the above activities are derived from continuing operations. There is no difference between the profit on ordinary activities before taxation and the profit for the financial year and their historical cost equivalents.

The accompanying notes are an integral part of this profit and loss account.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		4,731	4,575
Actuarial gain on defined benefit scheme	16	(3,546)	14,455
Deferred tax associated with actuarial gain	15	816	(3,614)
<b>Total recognised gains for the year</b>		<b>2,001</b>	15,416

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £'000	2011 £'000
Profit for the financial year	4,731	4,575
Actuarial gain on defined benefit scheme	(3,546)	14,455
Deferred tax associated with actuarial gain	816	(3,614)
<b>Net addition to shareholders' funds</b>	<b>2,001</b>	15,416
Opening shareholders' funds	99,807	84,391
<b>Closing shareholders' funds</b>	<b>101,808</b>	99,807

# PPG ARCHITECTURAL COATINGS UK LIMITED

## BALANCE SHEET

At 31 December 2012

	Notes	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Intangible assets	9	9,387	12,519
Tangible assets	10	17,297	16,706
		<u>26,684</u>	<u>29,225</u>
<b>Current assets</b>			
Stocks	11	19,741	24,961
Debtors	12	97,719	91,736
Cash at bank and in hand		292	2,107
		<u>117,752</u>	<u>118,804</u>
<b>Creditors: amounts falling due within one year</b>	13	(53,769)	(60,238)
<b>Net current assets</b>		<u>63,983</u>	<u>58,566</u>
<b>Total assets less current liabilities</b>		<b>90,667</b>	<b>87,791</b>
<b>Creditors: amounts falling due after one year</b>	14	(350)	(351)
<b>Provisions for liabilities</b>	15	(384)	(346)
<b>Net assets excluding pension asset</b>		<b>89,933</b>	<b>87,094</b>
<b>Pension asset</b>	16	11,875	12,713
<b>Net assets including pension asset</b>		<u>101,808</u>	<u>99,807</u>
<b>Capital and reserves</b>			
Called-up share capital	17	350	350
Profit and loss account	18	101,458	99,457
<b>Equity shareholders' funds</b>		<u>101,808</u>	<u>99,807</u>

These financial statements of PPG Architectural Coatings UK Limited, registered number 436135, were approved by the Board of Directors on 27 September 2013 and signed on its behalf by



**F Parry**  
**Director**

The accompanying notes are an integral part of this balance sheet

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation**

The financial statements have been prepared in accordance with the Companies Act 2006 and with applicable accounting standards in the United Kingdom and under the historical cost accounting rules

Under Financial Reporting Standard 1 (Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking, PPG Industries Inc has prepared consolidated accounts which include the accounts of the company for the year and which contain a consolidated cash flow statement, and which are publicly available

As the company is a wholly owned subsidiary of PPG Industries Inc. the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with companies that form part of the group. The consolidated financial statements of PPG Industries Inc within which this company is included, disclose this information, and can be obtained from 2400 One PPG Place, Pittsburgh, Pennsylvania 15222-5401, USA.

#### **Going concern**

The financial statements are prepared on the basis that the company is a going concern, as the directors have reviewed the financial condition of the company and of the PPG group including consideration of future forecasts and uncertainties arising from the current difficult economic environment. The company's parent has provided a letter of support for the period at least 12 months from the date of the audit report sign-off. Based upon this the directors have formed the view that the position of the company and the PPG group is sufficiently strong. Consequently the directors are satisfied it is reasonable to prepare the accounts on a going concern basis.

#### **Turnover**

Turnover represents the invoiced value of sales net of value added tax in the normal course of business and is recognised upon despatch of goods sold. No geographical analysis of sales is provided as the value of sales outside of the UK is considered to be not material.

#### **Tangible fixed assets**

Tangible fixed assets are shown at cost less accumulated depreciation. The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives.

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 1. ACCOUNTING POLICIES - continued

#### Tangible fixed assets – continued

The estimated useful lives of assets are as follows

Short leasehold properties - By reference to the unexpired portion of the lease

Plant and motor vehicles - 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account.

#### Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In establishing cost, stocks and work in progress at the end of the year are taken to represent latest purchases or production.

On this basis, cost comprises

Raw materials - purchase price

Work in progress and finished goods - raw materials, direct labour and attributable production overheads

Net realisable value is based on estimated selling price after taking into account all further costs expected to be incurred on completion and disposal.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided on amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

### **1. ACCOUNTING POLICIES - continued**

#### **Taxation – continued**

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all the evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### **Research and development**

Research and development expenditure is written off in the year in which it is incurred.

#### **Pensions and retirement indemnities**

The company participates in a defined benefit pension scheme. The scheme is administered by trustees and is independent of the company finances. Contributions are paid to the scheme in accordance with the recommendations of independent actuaries to enable the trustees to meet from the scheme the benefits accruing in respect of current and future service. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The pension scheme's surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The company contributes to a defined contribution pension plan for new employees. Contributions are charged to the profit and loss accounts as they become payable.

#### **Goodwill**

Purchased goodwill representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired is capitalised and written off over the period in which economic benefit from the acquisition is derived. Goodwill is currently being amortised over 20 years which is, in the directors' opinion, its useful economic life. Provision is made for any impairment.



# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 1. ACCOUNTING POLICIES - continued

#### Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost. Concessions, patents, licences and trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives. Trademark licences are currently being amortised over 10 years which is, in the directors' opinion, their useful economic life. Provision is made for any impairment.

#### Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase contracts are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period of the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

#### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the profit and loss account.

### 2. EMPLOYEES

	2012 £'000	2011 £'000
a) Employment cost of employees		
Wages and salaries	35,660	37,150
Social security costs	2,989	3,128
Other pension costs (see note 16)	2,929	4,531
	<u>41,578</u>	<u>44,809</u>

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 2. EMPLOYEES (Continued)

	2012 Number	2011 Number
b) The average monthly number of people employed by the company during the year was		
Production	415	414
Selling and distribution	1,047	1,180
Administration	82	95
	<u>1,544</u>	<u>1,689</u>
c) Directors' Emoluments	2011	2011
	£'000	£'000
Fees	1,022	786
Other emoluments (including pension contributions and benefits in kind)	185	167
	<u>1,207</u>	<u>953</u>
d) Directors' Pensions		

Five directors are members of the company's defined benefit pension scheme in both years, and two are in the money purchase pension scheme operated by the company

Highest paid director

The remuneration of the highest paid director, including pension contributions of £29,000 (2011 £25,000), was £271,000 (2011 £170,000)

### 3. COST OF SALES AND NET OPERATING EXPENSES

	2012 £'000	2011 £'000
Cost of sales	<u>115,574</u>	<u>110,452</u>
Net operating expenses		
Administrative expenses	18,239	12,440
Selling and distribution costs	<u>56,496</u>	<u>57,552</u>
Total net operating expenses	<u>74,735</u>	<u>69,992</u>

### 4. OPERATING PROFIT / (LOSS)

	2012 £'000	2011 £'000
Operating profit / (loss) is arrived at after charging:		
Depreciation of tangible fixed assets - owned	3,535	3,513
Depreciation of tangible fixed assets - leased	18	18
(Loss) / Profit on disposal of fixed assets	60	(16)
Amortisation of intangible fixed assets	<u>3,132</u>	<u>3,132</u>

**PPG ARCHITECTURAL COATINGS UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

<b>4. OPERATING PROFIT / (LOSS) (Continued)</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Hire of plant and machinery - operating leases	2,129	2,824
Hire of other assets - operating leases	4,976	4,665
Research and development costs	1,881	1,185
Fees payable to the company's auditor for the audit of the company's annual accounts	60	60
Total audit fees	60	60
Taxation services	30	30
Total non-audit fees	30	30
<b>5. INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Receivable from group undertakings	541	914
<b>6. INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Payable to group undertakings	1,016	785
<b>7. OTHER FINANCE INCOME / (COSTS)</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on pension scheme assets	5,089	5,402
Interest on pension scheme liabilities	(4,865)	(5,075)
	224	327
<b>8. TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<u>UK Corporation tax</u>		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	(3,161)
Total current tax credit	-	(3,161)
<u>Deferred tax (see note 15)</u>		
Deferred tax current year	1,236	(278)
Deferred tax prior year	(284)	371
Tax on profit on ordinary activities	952	(3,068)

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

<u>Factors affecting the tax charge for the current year</u>	<b>2012</b> £'000	2011 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	<b>5,684</b>	1,507
Current tax at 24.5% (2011: 26.5%)	<b>1,393</b>	399
<u>Effects of:</u>		
Expenses not deductible for tax	<b>978</b>	1,100
Imputed interest income	<b>306</b>	323
Adjustments in respect of prior years	-	(3,161)
Pension scheme adjustments	<b>(494)</b>	(257)
Depreciation in excess of capital allowances	<b>(279)</b>	923
Group relief (claimed)/surrendered for no payment	<b>(1,904)</b>	(2,488)
Total current tax (credit)/charge (see above)	<b>-</b>	<b>(3,161)</b>

On 20 March 2013 the Government announced that the main rate of Corporation Tax would reduce to 21% with effect from 1 April 2014, with subsequent 1% reduction to 20% with effect from 1 April 2015. These tax rate reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements.

Previously on 21 March 2012 the Government announced that the main rate of Corporation Tax would reduce to 24% with effect from 1 April 2012, with subsequent 1% reduction to 23% with effect from 1 April 2013. The 23% tax rate was substantively enacted on 3 July 2012 and has been reflected in these financial statements.

## 9. INTANGIBLE FIXED ASSETS

	Trademark licences £'000	Purchased goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2012 and at 31 December 2012	<b>38</b>	62,634	62,672
<b>Amortisation</b>			
At 1 January 2012	38	50,115	50,153
Charge for the year		3,132	3,132
At 31 December 2012	<b>38</b>	53,247	53,285
<b>Net book value</b>			
At 31 December 2012	-	9,387	9,387
At 31 December 2011	-	12,519	12,519

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 10. TANGIBLE FIXED ASSETS

	Short leasehold property £'000	Plant and motor vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2012	5,288	70,832	76,120
Additions	2,434	1,788	4,222
Disposals	(113)	(451)	(564)
At 31 December 2012	<u>7,609</u>	<u>72,169</u>	<u>79,778</u>
<b>Depreciation</b>			
At 1 January 2012	1,793	57,621	59,414
Charge for the year	512	3,041	3,553
Disposals	(48)	(438)	(486)
At 31 December 2012	<u>2,257</u>	<u>60,224</u>	<u>62,481</u>
<b>Net book amount</b>			
At 31 December 2012	<u>5,352</u>	<u>11,945</u>	<u>17,297</u>
At 31 December 2011	<u>3,495</u>	<u>13,211</u>	<u>16,706</u>

The net book amount of tangible fixed assets includes £152,000 (2011: £170,000) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £18,000 (2011: £18,000)

11. STOCKS	2012 £'000	2011 £'000
Raw materials and consumables	3,706	6,009
Work in progress	902	1,274
Finished goods	<u>15,133</u>	<u>17,678</u>
	<u>19,741</u>	<u>24,961</u>

There is no material difference between the balance sheet value of stock and their replacement cost

12. DEBTORS	2012 £'000	2011 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	27,221	22,112
Amounts owed by group undertakings	66,611	64,984
Deferred tax asset (see note 15)	1,633	2,461
Prepayments	<u>2,254</u>	<u>2,179</u>
	<u>97,719</u>	<u>91,736</u>

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 13. CREDITORS:

	2012	2011
	£'000	£'000
Amounts falling due within one year		
Trade creditors	27,030	26,038
Amounts owed to group undertakings	16,827	29,286
Other taxes and social security	2,184	734
Accruals and deferred income	7,728	4,180
	<u>53,769</u>	<u>60,238</u>

### 14. CREDITORS:

	2012	2011
	£'000	£'000
Amounts falling due after one year		
Finance lease creditor	<u>350</u>	<u>351</u>

### 15. PROVISIONS FOR LIABILITIES

	Other provision	Deferred Taxation	Total
	£'000	£'000	£'000
At 1 January 2012	346	1,777	2,123
Charged to profit and loss account	384	952	1,411
Utilised in the year	(346)		(346)
Charged to the statement of total recognised gains and losses	-	(816)	(851)
At 31 December 2012	<u>384</u>	<u>1,913</u>	<u>2,337</u>

#### Other provision

This is the final year of a three year contractual arrangement, entered into by the company, to sponsor a sporting trophy such that the company is obligated to pay the full amount due under the contract unless certain events occur. The company has renewed the contract for a further three year term. The directors consider that the likelihood of these events occurring is remote and have therefore provided for the contractual obligation. The provision will be utilised next year. The directors have not used discounting as this would not give rise to a materially different result.

#### Deferred taxation

The deferred tax (liability) / asset at 31 December can be analysed as follows

	2012	2011
	£'000	£'000
Difference between accumulated depreciation and amortisation and capital allowances	<u>1,633</u>	<u>2,461</u>
Deferred tax asset (see note 12)	1,633	2,461
Deferred tax liability on pension asset (see note 16)	<u>(3,546)</u>	<u>(4,238)</u>
	<u>(1,913)</u>	<u>(1,777)</u>

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 15. PROVISIONS FOR LIABILITIES (continued)

A deferred tax asset has been recognised as the directors consider that based on the anticipation of future taxable earnings it is more likely than not that the asset will be recovered

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax laws substantively enacted at the balance sheet date

There are no further unrecognised deferred tax assets or unprovided deferred tax liabilities other than those stated above at either year end

### 16. PENSION COMMITMENTS

The Company participates in a defined benefit pension scheme in the UK (the PPG Coatings (AC and PC) Pension Scheme, formerly the SigmaKalon UK Pension Fund) The scheme is a funded scheme

A formal valuation was carried out as at 5 April 2009 which has been updated to 31 December 2012 by a qualified independent actuary The next valuation will be in 2013 The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method

Over 95% of the liabilities of the PPG Coatings (AC and PC) Pension Scheme relate to members employed by PPG Architectural Coatings UK Ltd These disclosures have been prepared on the assets and liabilities of the fund as a whole

The major assumptions used by the actuary were

	2012	2011	2010
Discount rate	4.7%	4.8%	5.5%
Expected return on scheme assets	4.1%	4.2%	5.6%
Rate of increase in salaries	3.7%	3.7%	4.1%
Rate of increase in future pensions in payment – where relating to increases in the Retail Prices Index (RPI) with a maximum of 5% pa	3.0%	3.0%	3.4%
Rate of increase in deferred pensions	2.5%	2.2%	3.6%
RPI inflation assumption	3.2%	3.2%	3.6%
CPI inflation assumption	2.5%	2.2%	N/A

Mortality	2012	2011
Retiring today – Males	86.0	85.8
- Females	88.1	87.8
Retiring in 15 years - Males	87.3	86.9
- Females	89.4	89.0

**PPG ARCHITECTURAL COATINGS UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

**16. PENSION COMMITMENTS (continued)**

The assets in the scheme and the weighted average expected rate of return were

	<b>% at 2012</b>	<b>Value at 2012 £'000</b>	<b>% at 2011</b>	<b>Value at 2011 £'000</b>	<b>% at 2010</b>	<b>Value at 2010 £'000</b>
Equities	<b>0%</b>	<b>-</b>	<b>20%</b>	<b>23,666</b>	<b>24%</b>	<b>23,341</b>
Diversified growth funds	<b>48%</b>	<b>62,359</b>	<b>0%</b>	<b>-</b>	<b>0%</b>	<b>-</b>
Gilts & Bonds	<b>41%</b>	<b>53,426</b>	<b>79%</b>	<b>96,362</b>	<b>69%</b>	<b>66,099</b>
Other	<b>11%</b>	<b>14,674</b>	<b>1%</b>	<b>477</b>	<b>7%</b>	<b>6,237</b>
Total market value of assets	<b>100%</b>	<b>130,459</b>	<b>100%</b>	<b>120,505</b>	<b>100%</b>	<b>95,677</b>

	<b>2012 £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
Fair value of assets	<b>130,459</b>	<b>120,505</b>	<b>95,677</b>
Pension liability	<b>(115,038)</b>	<b>(103,554)</b>	<b>(94,152)</b>
Overall surplus/(deficit) in scheme	<b>15,421</b>	<b>16,951</b>	<b>1,525</b>
Related deferred tax (liability) / asset	<b>(3,546)</b>	<b>(4,238)</b>	<b>(412)</b>
Net pension asset / (liability)	<b>11,875</b>	<b>12,713</b>	<b>1,113</b>

**Reconciliation of the present value of the defined benefit obligation**

	<b>2012 £'000</b>	<b>2011 £'000</b>
Present value of defined benefit obligation at beginning of the year	<b>103,554</b>	<b>94,152</b>
Current service cost	<b>3,308</b>	<b>3,779</b>
Interest cost	<b>4,865</b>	<b>5,075</b>
Members contributions	<b>56</b>	<b>66</b>
Actuarial loss	<b>6,541</b>	<b>2,571</b>
Benefits paid	<b>(2,286)</b>	<b>(2,089)</b>
Curtailment	<b>(1,000)</b>	<b>-</b>
Present value of defined benefit obligation at end of the year	<b>115,038</b>	<b>103,554</b>



**PPG ARCHITECTURAL COATINGS UK LIMITED**  
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**16. PENSION COMMITMENTS (continued)**

<b>Reconciliation of fair value of scheme assets</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of scheme assets at beginning of the year	120,505	95,677
Expected return on scheme assets	5,089	5,402
Actuarial gain on scheme assets	2,996	17,026
Contributions by the company	4,099	4,423
Member contributions	56	66
Benefits paid	(2,286)	(2,089)
Present value of defined benefit obligation at end of the year	<u>130,459</u>	<u>120,505</u>
 <b>Balance sheet presentation</b>	 <b>2012</b>	 <b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Net assets excluding pension asset	89,933	87,094
Pension asset	<u>11,875</u>	<u>12,713</u>
Net assets including pension asset	<u>101,808</u>	<u>99,807</u>
 Profit and loss reserve excluding pension asset	 89,583	 86,744
Pension asset	<u>11,875</u>	<u>12,713</u>
Profit and loss reserve including pension asset	<u>101,458</u>	<u>99,457</u>
 <b>Analysis of amount charged to operating profit</b>	 <b>2012</b>	 <b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Current service cost	<u>3,308</u>	<u>3,779</u>
<b>Analysis of amount credited to other finance income</b>		
Expected return on pension scheme assets	5,089	5,402
Interest on Pension scheme Liabilities	<u>(4,865)</u>	<u>(5,075)</u>
Net return	<u>224</u>	<u>327</u>
 <b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL)</b>		
Actual return less expected return on pension scheme assets	2,996	17,026
Experience Gains and Losses arising on the scheme liabilities	1,011	2,692
Changes in assumptions underlying the present value of the scheme liabilities	(7,553)	(5,263)
Actuarial gain recognised in STRGL	<u>(3,546)</u>	<u>14,455</u>

The Company is currently contributing 19.5% of Pensionable Salary, less member contributions for any members who are not participating in the Company's Pay Conversion Arrangement. In addition, contributions of £94,000 per month were payable from 1 July 2007.

**PPG ARCHITECTURAL COATINGS UK LIMITED**  
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**16. PENSION COMMITMENTS (continued)**

*Cumulative amount recognised in statement of total recognised gains and losses*

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Cumulative amount recognised, beginning of year	14,727	272
Actuarial loss/(gain)	(3,546)	14,455
Cumulative amount recognised, end of year	<u>11,181</u>	<u>14,727</u>

**Summary of the movement in deferred tax on the net pension asset:**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Brought forward 1 January	(4,238)	(412)
Credited / (Debited) through statement of total recognised gains and losses	816	(3,614)
Credited / (Debited) through the profit and loss account	(463)	(150)
Rate change Credited / (Debited) through the profit and loss account	339	-
Deferred tax at 31 December	<u>(3,546)</u>	<u>(4,238)</u>

Details of experience gains and losses for the years to 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008 and 31 December 2007

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Fair value of assets	130,459	120,505	95,677	83,717	76,827
Pension Liability	(115,038)	(103,554)	(94,152)	(85,601)	(56,941)
Overall surplus / (deficit) in scheme	<u>15,421</u>	<u>16,951</u>	<u>1,525</u>	<u>(1,884)</u>	<u>19,886</u>

Difference between the expected and actual return on scheme assets

Amount (£'000)	2,996	17,026	5,541	15	3,156
Experience gains and losses on scheme liabilities					
Amount (£'000)	1,011	2,692	2,746	(985)	(2,591)

The companies' best estimate of contributions for 2013 are £5,200,000 by the employer and £70,000 by the employees

**PPG ARCHITECTURAL COATINGS UK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**16. PENSION COMMITMENTS (continued)**

Following a consultation process with final salary pension scheme members the company announced the closure of the defined benefit scheme. All final salary scheme members were enrolled in the defined contribution scheme from 1 April 2013.

**Group Personal Pension**

The company also pays contributions to a Group Personal Pension ("GPP") in respect of certain employees. The company's contributions to the GPP in the period up to 31 December 2012 were £748,116 (2011: £751,867). There are no contributions unpaid at 31 December 2012.

**17. CALLED UP SHARE CAPITAL**

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Authorised		
65,000,000 ordinary shares of £1 each	<u>65,000</u>	<u>65,000</u>
Allotted, issued and fully paid		
350,000 ordinary shares of £1 each	<u>350</u>	<u>350</u>

**18. PROFIT AND LOSS ACCOUNT**

	£'000
At 1 January 2012	99,457
Profit for the financial year	4,732
Actuarial gain in defined benefit pension plan	(3,546)
Deferred tax re actuarial gain	816
<b>Closing balance at 31 December 2012</b>	<u><b>101,459</b></u>

**19. COMMITMENTS**

	<b>2012</b>	2011
	<b>£000</b>	£000
a) Future capital expenditure		
Contracted for, but not provided in the accounts	<u>378</u>	<u>221</u>

b) Leasing commitments

The annual commitment under operating leases are analysed according to the period in which each lease expires, as follows:

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Land and building leases expiring		
within 1 year	594	424
between 1 and 2 years	443	287
between 2 and 5 years	1,232	1,152
beyond 5 years	<u>2,489</u>	<u>2,813</u>
	<u><b>4,758</b></u>	<u><b>4,676</b></u>

**PPG ARCHITECTURAL COATINGS UK LIMITED**  
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**19. COMMITMENTS (continued)**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Plant and motor vehicles leases expiring		
within 1 year	<b>398</b>	1,033
between 1 and 2 years	<b>489</b>	337
between 2 and 5 years	<b>1,422</b>	839
	<b><u>2,309</u></b>	<b><u>2,209</u></b>

**20. ULTIMATE PARENT UNDERTAKING**

The immediate parent is Kalon Investment Company Limited, a company incorporated in the United Kingdom.

The directors regard PPG Industries Inc, a company incorporated and registered in the United States of America and listed on the New York Stock Exchange, as the ultimate parent company and ultimate controlling party by virtue of its 100% interest in the equity share capital of the company

This is the largest and smallest company within which the Company's results are consolidated. Copies of its financial statements can be obtained from 2400 One PPG Place, Pittsburgh, Pennsylvania 15222-5401, USA