

PPG ARCHITECTURAL COATINGS UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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PPG ARCHITECTURAL COATINGS UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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PPG ARCHITECTURAL COATINGS UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

OFFICERS AND PROFESSIONAL ADVISERS

Directors

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

Registered Office

Huddersfield Road
Birstall
Batley
West Yorkshire
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

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

PPG ARCHITECTURAL COATINGS UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their strategic report on the company for the year ended 31 December 2014.

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 paint segments.

Both paint segments remain highly challenging environments. The trade paint segment continued its recovery in 2014 with strong volume growth for a second consecutive year. The retail paint segment also showed signs of recovery in 2014 with more modest volume growth. This was on the back of 3 years of volume decline. Overall, the company's sales continued to perform very well, growing ahead of each paint segment in terms of both volume and value.

In the trade paint segment, our investment in the specifications business is paying dividends. We have secured a number of high profile contracts and specifications throughout 2014 and will continue to invest in this area going forwards.

In the retail paint segment, the company continues to perform extremely well in its stockist business through a combination of store expansion activity of key retailers, organic growth and new business won. New business wins in 2014 included the private label contract for Asda and some significant new listings with UK DIY retailers, primarily with the Leyland Trade brand.

To further support the growth of the business 2014 saw some significant investment to our manufacturing facilities. Additional equipment was installed to increase our overall capacity and to increase our manufacturing flexibility.

Throughout 2014 we continued to develop and invest in our Johnstone's Decorating Centre network with the opening of a new store in Scarborough, North Yorkshire. In addition to this we also relocated three other stores to more prominent locations and to better service local geographies. Both of our Morecambe stores were closed and merged into relocated premises. We also relocated our Bradford East and Hove stores to improved locations. At the end of 2014, our Decorating Centre network consisted of 187 stores (either owned or leased).

2014 was a very strong year for New Product Development as the company continues to invest heavily in this area, launching a number of high profile products across most of our brands. For the Johnstone's Trade brand we launched a new Covaplus vinyl matt formulation which performed exceptionally well. We also added to the hugely successful Johnstone's Aqua water based trim range with a satin finish. We also launched an Advanced Multi Surface primer, a top of the range primer suitable for a wide range of surfaces.

In 2013 we announced our intention to expand the Johnstone's Trade brand into the render coatings segment with a range of external wall insulation (EWI) and render systems under development for launch in 2014 under the Johnstone's Stormshield brand. We secured all the appropriate accreditations from the British Board of Agreement (BBA) and had a successful year trading in this new segment. At the end of 2014 we had been awarded a number of significant key contracts and have started to build a strong pipeline of business for the future. The addition of our EWI and render systems business to the already established architectural coatings business provides the company with a key differentiator as we are now able to offer a greatly diversified range of coatings solutions to our customers.

2014 also saw the launch of a number of additional new products into our Johnstone's and Leyland retail brands. We launched a range of Garden Colours into the Johnstone's retail range to capitalise on this fast growing category. We also re-launched the Johnstone's Speciality offer, a range of "problem fixer" products with very distinctive and easy to navigate packaging to aid the consumer. Both of these additional ranges performed well.

The Johnstone's Paint Trophy continued to build awareness of the Johnstone's brand through completion of its 8th season. The competition, for English League 1 and League 2 sides, culminated in the final at Wembley Stadium in March 2014 where Peterborough United defeated Chesterfield FC in front of over 35,000 fans. For the Leyland Trade brand we continued our darts player sponsorship programme, sponsoring three professional players including the number one ranking player in the world, Michael Van Gerwen. The following for professional darts has grown rapidly over recent years and this has worked well for us in terms of brand awareness and customer engagement

PPG ARCHITECTURAL COATINGS UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

Key Performance Indicators

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

	2014	2013	Definition, method of calculation and analysis
Gross profit (%)	47.8%	45.4%	The ratio of gross profit to sales expressed as a percent. Gross profit percentage is higher due to improved sales volumes coupled with higher selling prices and continued effective cost controls on raw materials.
Return on sales (%)	14.2%	10.9%	Operating profit expressed as a percentage of sales. The improved sales margins and good cost control coupled with the closure of the final salary scheme has led to an improved return on sales.
Return on Investment capital	22.7%	20.0%	Operating profit expressed as a percentage of net assets. The return on investment capital has improved due to 2013 being lower because of pension curtailment costs impacting that year.

Strategy

The company continues to pursue its vision of becoming 'Our customers' 1st Choice; delivered by 1st 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 segment share supported by excellent people.

Future outlook

Under the ownership of our ultimate parent company, PPG Industries, Inc., we remain fully committed to increasing segment share in 2015 and beyond, in spite of some very tough segment 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 PPG Industries, Inc.

On behalf of the board



S Pocock
Director

29 September 2015

PPG ARCHITECTURAL COATINGS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2014.

Results and dividends

The results of the company show a pre-tax profit of £31.3m (2013: £1.9m).

The directors did not pay an interim dividend during the year ended 31 December 2014 (2013: £nil).

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2014 (2013: £nil).

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.

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 economic environment.

Directors

The directors of the company, who served for the whole of the year ended 31 December 2014, except where stated, and up to the date of this report were as follows:

F Parry
G Roebuck
J Metcalf
L Morris – appointed 01/02/2014
M Hollingworth
P Lafford
P Dowie – appointed 01/02/2014
R Hemingway
S Pocock
V O'Sullivan

PPG ARCHITECTURAL COATINGS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

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 financial statements.

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 2015.

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 2014 were equivalent to 100 days purchases (2013: 94 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 £11,980 (2013: £24,135), principally to local charities serving the communities in which the company operates. The company made no political contributions.

Statement of disclosure of information to auditors

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 auditors are 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 auditors are 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

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

S Pocock
Director

29 September 2015

PPG ARCHITECTURAL COATINGS UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared 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 judgements 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 AUDITORS' REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED

Report on the financial statements

Our opinion

In our opinion, PPG Architectural Coatings UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

What we have audited

The financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

PPG ARCHITECTURAL COATINGS UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

29 September 2015

PPG ARCHITECTURAL COATINGS UK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Turnover		214,019	200,650
Cost of sales	3	(111,822)	(109,586)
Gross profit		102,197	91,064
Net operating expenses	3	(71,825)	(69,097)
Operating profit	4	30,372	21,967
Interest receivable and similar income	5	512	471
Interest payable and similar charges	6	(98)	(231)
Result/ (Loss) arising on curtailment		-	(20,713)
Other finance income	7	550	359
Profit on ordinary activities before taxation		31,336	1,853
Tax on profit on ordinary activities	8	(6,956)	4,659
Profit for the financial year	18	24,380	6,512

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.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Profit for the financial year		24,380	6,512
Actuarial gain on defined benefit scheme	16	-	1,786
Deferred tax associated with actuarial gain	15	-	(411)
Total recognised gains for the year		24,380	7,887

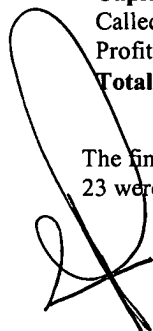
PPG ARCHITECTURAL COATINGS UK LIMITED

BALANCE SHEET

As at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	9	3,123	6,255
Tangible assets	10	<u>17,013</u>	<u>17,235</u>
		<u>20,136</u>	<u>23,490</u>
Current assets			
Stocks	11	18,342	19,788
Debtors	12	126,487	107,656
Cash at bank and in hand		<u>10,818</u>	<u>-</u>
		<u>155,647</u>	<u>127,444</u>
Creditors: amounts falling due within one year	13	<u>(40,989)</u>	<u>(40,039)</u>
Net current assets		<u>114,658</u>	<u>87,405</u>
Total assets less current liabilities		134,794	110,895
Creditors: amounts falling due after more than one year	14	(335)	(336)
Provisions for liabilities	15	<u>(384)</u>	<u>(864)</u>
Net assets excluding pension asset		134,075	109,695
Pension asset	16	<u>-</u>	<u>-</u>
Net assets including pension asset		<u>134,075</u>	<u>109,695</u>
Capital and reserves			
Called up share capital	17	350	350
Profit and loss account	18	<u>133,725</u>	<u>109,345</u>
Total shareholders' funds	19	<u>134,075</u>	<u>109,695</u>

The financial statements of PPG Architectural Coatings UK Limited, registered number 436135, on pages 10 to 23 were approved by the Board of Directors on 29 September 2015 and signed on its behalf by:



S Pocock
Director

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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 financial statements which include the financial statements 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 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 financial statements 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.

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.

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

1. ACCOUNTING POLICIES (continued)

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.

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.

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.

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 (continued)

Year ended 31 December 2014

1. ACCOUNTING POLICIES (continued)

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.

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

	2014 £'000	2013 £'000
a) Employment cost of employees:		
Wages and salaries	38,359	35,083
Social security costs	3,525	3,052
Other pension costs (see note 16)	3,053	3,352
	<u>44,937</u>	<u>41,487</u>

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

2. EMPLOYEES (continued)

	2014 Number	2013 Number
b) The average monthly number of people employed by the company during the year was:		
Production	347	362
Selling and distribution	1,000	1,007
Administration	75	85
	<u>1,422</u>	<u>1,454</u>
c) Directors' Emoluments:	2014	2013
	£'000	£'000
Fees	1,536	1,221
Other emoluments (including pension contributions and benefits in kind)	264	251
	<u>1,800</u>	<u>1,472</u>
d) Directors' Pensions		

Five directors are members of the company's defined benefit pension scheme in both years, and five 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 £26,000 (2013: £58,000), was £362,000 (2013: £379,000).

3. COST OF SALES AND NET OPERATING EXPENSES

	2014 £'000	2013 £'000
Cost of sales	<u>111,822</u>	<u>109,586</u>
Net operating expenses:		
Administrative expenses	14,507	13,902
Selling and distribution costs	57,318	55,195
Total net operating expenses	<u>71,825</u>	<u>69,097</u>

4. OPERATING PROFIT / (LOSS)

	2014 £'000	2013 £'000
Operating profit is arrived at after charging:		
Depreciation of tangible fixed assets - owned	3,328	3,228
Depreciation of tangible fixed assets - leased	18	18
(Loss) / Profit on disposal of fixed assets	(8)	131
Amortisation of intangible fixed assets	3,132	3,132
Hire of plant and machinery - operating leases	2,267	2,317
Hire of other assets - operating leases	4,391	4,970
Research and development costs	2,019	1,959
Fees payable to the company's auditors for the audit of the company's annual financial statements	76	121
Taxation services	26	53

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Receivable from group undertakings	<u>512</u>	<u>471</u>

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Payable to group undertakings	98	231

7. OTHER FINANCE INCOME

	2014 £'000	2013 £'000
Expected return on pension scheme assets	6,170	5,865
Interest on pension scheme liabilities	(5,620)	(5,506)
	550	359

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £'000	2013 £'000
<u>UK Corporation tax:</u>		
Current tax on income for the year	(6,248)	-
Total current tax charge	(6,248)	-
<u>Deferred tax (see note 15):</u>		
Deferred tax current year	(430)	3,114
Deferred tax prior year	(278)	1,545
Tax on profit on ordinary activities	(6,956)	4,659

The actual tax charge for the current and the previous year differs from the standard rate of Corporation tax in the UK for the reasons set out in the following reconciliation;

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation	31,336	1,853
Current tax at 21.50% (2013: 23.25%)	6,737	431
<u>Effects of:</u>		
Expenses not deductible for tax purposes	194	184
Imputed interest income	363	349
Pension scheme adjustments	-	4,001
Depreciation in excess of capital allowances	500	244
Group relief claimed for no payment	(1,546)	(5,209)
Total current tax charge (see above)	6,248	-

The Corporate tax rate was reduced to 21% with effect from 1 April 2014, and a further rate reduction to 20% from 1 April 2015 was enacted during 2013. The current tax rate for the year ended 31 December 2014 is therefore 21.50% (2013: 23.25%).

9. INTANGIBLE FIXED ASSETS

	Trademark licences £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January and at 31 December 2014	38	62,634	62,672
Amortisation			
At 1 January 2014	38	56,379	56,417
Charge for the year	-	3,132	3,132
At 31 December 2014	38	59,511	59,549
Net book value			
At 31 December 2014	-	3,123	3,123
At 31 December 2013	-	6,255	6,255

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

10. TANGIBLE FIXED ASSETS

	Short leasehold property £'000	Plant and motor vehicles £'000	Total £'000
Cost			
At 1 January 2014	8,963	73,624	82,587
Additions	714	2,419	3,133
Disposals	-	(61)	(61)
At 31 December 2014	<u>9,677</u>	<u>75,982</u>	<u>85,659</u>
Accumulated depreciation			
At 1 January 2014	2,930	62,422	65,352
Charge for the year	741	2,605	3,346
Disposals	-	(52)	(52)
At 31 December 2014	<u>3,671</u>	<u>64,975</u>	<u>68,646</u>
Net book amount			
At 31 December 2014	<u>6,006</u>	<u>11,007</u>	<u>17,013</u>
At 31 December 2013	<u>6,033</u>	<u>11,202</u>	<u>17,235</u>

The net book amount of tangible fixed assets includes £116,000 (2013: £134,000) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £18,000 (2013: £18,000).

11. STOCKS

	2014 £'000	2013 £'000
Raw materials and consumables	2,653	3,547
Work in progress	670	927
Finished goods	<u>15,019</u>	<u>15,314</u>
	<u>18,342</u>	<u>19,788</u>

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

12. DEBTORS

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	22,579	28,040
Amounts owed by group undertakings	99,998	74,258
Deferred tax asset (see note 15)	1,627	2,335
Prepayments and accrued income	<u>2,283</u>	<u>3,023</u>
	<u>126,487</u>	<u>107,656</u>

The amount owed by group undertakings are unsecured, interest free and repayable at various dates.

13. CREDITORS:

	2014 £'000	2013 £'000
Amounts falling due within one year		
Trade creditors	30,703	28,786
Amounts owed to group undertakings	488	541
Bank loans and overdrafts	-	1,539
Other taxation and social security	4,672	2,960
Corporation tax	3,378	-
Accruals and deferred income	<u>1,748</u>	<u>6,213</u>
	<u>40,989</u>	<u>40,039</u>

The amount owed to group undertakings are unsecured, interest free and repayable at various dates.

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

14. CREDITORS:

	2014 £'000	2013 £'000
Amounts falling due after more than one year		

Finance lease creditor	335	336
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The amount owed to group undertakings are unsecured, interest free and repayable at various dates.

15. PROVISIONS FOR LIABILITIES

	Other provision £'000	Deferred Taxation £'000	Total £'000
At 1 January 2014	864	(2,335)	(1,471)
Charged/(credited) to profit and loss account	(480)	708	228
Utilised in the year	-	-	-
Charged to the statement of total recognised gains and losses	-	-	-
At 31 December 2014	384	(1,627)	(1,243)

Other provision

This is the final year of a 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 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 asset at 31 December can be analysed as follows:

	2014 £'000	2013 £'000
Difference between accumulated depreciation and amortisation and capital allowances	1,627	2,335
Deferred tax asset (see note 12)	1,627	2,335
Deferred tax liability on pension asset (see note 16)	-	-
	1,627	2,335

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.

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

16. PENSION COMMITMENTS

The PPG Coatings (AC and PC) Pension Scheme closed to future accrual on the 5 April 2013, and was merged into the PPG Industries (UK) Limited Pension Plan – AC Division, on 6 April 2013 on a sectionalised basis. Upon closure the accrued benefits of active members ceased to be linked to final salary and will instead revalue in deferment broadly in line with increases in the Consumer Price Index ("CPI").

As a direct result of the curtailment, it is no longer possible to recognise a surplus on the balance sheet. Immediately before the curtailment, the surplus shown in the scheme was £20,713,000.

The reduction in recognisable surplus from £20,713,000 on 5 April 2013 to £nil on 6 April 2013 results in a charge of £20,713,000 in the profit and loss account for 2013.

The major assumptions used by the actuary were:

	2014	2013	2012
Discount rate	3.7%	4.5%	4.7%
Expected return on scheme assets	3.7%	5.2%	4.1%
Rate of increase in salaries	N/A	N/A	3.7%
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%	3.3%	3.0%
Rate of increase in deferred pensions	2.0%	2.5%	2.5%
RPI inflation assumption	3.1%	3.5%	3.2%
CPI inflation assumption	2.0%	2.5%	2.5%
Mortality			
Retiring today – Males	86.3	86.2	
- Females	88.8	88.4	
Retiring in 15 years - Males	87.6	87.5	
- Females	90.3	89.8	

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

	% at 2014	Value at 2014	% at 2013	Value at 2013	% at 2012	Value at 2012
		£'000		£'000		£'000
Equities	0%	-	0%	-	0%	-
Diversified growth funds	45%	75,165	52%	71,594	48%	62,359
Gilts & Bonds	53%	89,393	40%	53,965	41%	53,426
Other	2%	3,292	8%	10,300	11%	14,674
Total market value of assets	100%	167,850	100%	135,859	100%	130,459

	2014	2013	2012
	£'000	£'000	£'000
Fair value of assets	167,850	135,859	130,459
Pension liability	(138,751)	(127,849)	(115,038)
Assets not recoverable in the future	(29,099)	(8,010)	-
Overall surplus in scheme	-	-	15,421
Related deferred tax (liability)	-	-	(3,546)
Net pension asset	-	-	11,875

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

16. PENSION COMMITMENTS (continued)

Reconciliation of the present value of the defined benefit obligation

	2014 £'000	2013 £'000
Present value of defined benefit obligation at beginning of the year	127,849	115,038
Current service cost	550	1,286
Interest cost	5,620	5,506
Members contributions	-	18
Actuarial loss	7,342	11,478
Benefits paid	(2,610)	(3,077)
Curtailment	-	(2,400)
Present value of defined benefit obligation at end of the year	<u>138,751</u>	<u>127,849</u>

Reconciliation of fair value of scheme assets

	2014 £'000	2013 £'000
Fair value of scheme assets at beginning of the year	135,859	130,459
Expected return on scheme assets	6,170	5,865
Actuarial gain on scheme assets	28,431	(1,839)
Contributions by the company	-	4,433
Member contributions	-	18
Benefits paid	(2,610)	(3,077)
Present value of defined benefit obligation at end of the year	<u>167,850</u>	<u>135,859</u>

Balance sheet presentation

	2014 £'000	2013 £'000
Net assets excluding pension asset	134,075	109,695
Net pension asset	-	-
Net assets including pension asset	<u>134,075</u>	<u>109,695</u>
Profit and loss reserve excluding pension asset	133,725	109,335
Net pension asset	-	-
Profit and loss reserve including pension asset	<u>133,725</u>	<u>109,335</u>

Analysis of amount charged to operating profit

	2014 £'000	2013 £'000
Current service cost	<u>550</u>	<u>1,286</u>

Analysis of amount credited to other finance income

	2014 £'000	2013 £'000
Expected return on pension scheme assets	6,170	5,865
Interest on Pension scheme Liabilities	<u>(5,620)</u>	<u>(5,506)</u>
Net return	<u>550</u>	<u>359</u>

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	28,431	(1,839)
Experience Gains and Losses arising on the scheme liabilities	5,762	979
Changes in assumptions underlying the present value of the scheme liabilities	(13,104)	(12,457)
Change in assets not recoverable in the future	<u>(21,089)</u>	<u>15,103</u>
Actuarial gain recognised in STRGL	<u>-</u>	<u>1,786</u>

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

16. PENSION COMMITMENTS (continued)

Cumulative amount recognised in statement of total recognised gains and losses

	2014 £ 000	2013 £ 000
Cumulative amount recognised, beginning of year	12,967	11,181
Actuarial loss	-	1,786
Cumulative amount recognised, end of year	12,967	12,967

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.

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

	2014 £'000	2013 £'000
Brought forward 1 January	-	(3,546)
Debited through statement of total recognised gains and losses	-	(411)
Credited through the profit and loss account	-	3,957
Deferred tax at 31 December	-	-

Details of experience gains and losses for the years to 31 December 2014, 31 December 2013, 31 December 2012 and 31 December 2011 and 31 December 2010.

	2014 £,000	2013 £,000	2012 £,000	2011 £,000	2010 £,000
Fair value of assets	167,850	135,859	130,459	120,505	95,677
Pension Liability	(138,751)	(127,849)	(115,038)	(103,554)	(94,152)
Overall surplus / (deficit) in scheme	29,099	8,010	15,421	16,951	1,525
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	28,431	(1,839)	2,996	17,026	5,541
Experience gains and losses on scheme liabilities:					
Amount (£'000)	5,762	979	1,011	2,692	2,746

Group Personal Pension

The company pays contributions to a Group Personal Pension ("GPP") in respect of employees. The company's contributions to the GPP in the year up to 31 December 2014 were £3,053,000 (2013: £845,907). There are no contributions unpaid at 31 December 2014.

17. CALLED UP SHARE CAPITAL

	2014 £'000	2013 £'000
Authorised:		
65,000,000 (2013: 65,000,000) ordinary shares of £1 each	65,000	65,000
Allotted, issued and fully paid:		
350,000 (2013: 350,000) ordinary shares of £1 each	350	350

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

18. PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 2014	109,345
Profit for the financial year	24,380
Closing balance at 31 December 2014	<u>133,725</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER

	2014 £'000	2013 £'000
Profit for the financial year	24,380	6,512
Actuarial gain on defined benefit scheme	-	1,786
Deferred tax associated with actuarial gain	-	(411)
Net addition to shareholders' funds	<u>24,380</u>	<u>7,887</u>
Opening shareholders' funds	<u>109,695</u>	<u>101,808</u>
Closing shareholders' funds	<u>134,075</u>	<u>109,695</u>

20. COMMITMENTS

	2014 £000	2013 £000
a) Future capital expenditure		
Contracted for, but not provided in the financial statements	<u>1,490</u>	<u>153</u>
b) Leasing commitments		
The annual commitment under operating leases are analysed according to the period in which each lease expires, as follows:		
Land and building leases expiring:		
	2014 £'000	2013 £'000
within 1 year	521	313
between 1 and 2 years	354	523
between 2 and 5 years	1,646	1,485
beyond 5 years	2,521	2,328
	<u>5,042</u>	<u>4,649</u>
Plant and motor vehicles leases expiring:		
	2014 £'000	2013 £'000
within 1 year	408	192
between 1 and 2 years	935	928
between 2 and 5 years	930	430
	<u>2,273</u>	<u>1,550</u>

PPG ARCHITECTURAL COATINGS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

21. ULTIMATE PARENT UNDERTAKING

The immediate parent company 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.