

**Akzo Nobel Aerospace Coatings Limited**

**Annual Report and Financial Statements**

Registered number 00938151

31 December 2016

FRIDAY



\*L6G0U4B4\*

L11

29/09/2017

#3

COMPANIES HOUSE

## Contents

Strategic Report	1
Directors' Report	3
Independent auditors' report to the members of Akzo Nobel Aerospace Coatings Limited	5
Statement of Comprehensive Income	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10

## Strategic Report

The directors present their Strategic Report for the year ended 31 December 2016.

### Principal activities

The principal activities of the Company are the sale and distribution of coatings to the aerospace industry.

### Business review

The Company's business is part of the AkzoNobel Performance Coatings Business Unit of the group headed by Akzo Nobel N.V. Full information on the strategy of the Business Unit can be found in the Financial Statements, pages 22 – 37, of the ultimate parent company; Akzo Nobel N.V. Copies are available as indicated in note 18 of the financial statements.

### Strategic developments

Our strategy to develop our market segments of our business continues to enhance our results with both accounts growing above the market, which, as full system partner has provided good and profitable growth for the business.

### Operational performance

In 2016, the UK Aerospace market grew, driven by increased production rate and the recovery of the maintenance segment. For AkzoNobel, this growth is reflected in our financial results and our overall volume. Despite the increase in sales and volume, it was a challenging year due to increased competitiveness in the market place and an increase in material costs due to the devaluation of the British Pound following the announcement of the UK's intention to leave the European Union. Overall gross margin and operating income is still very healthy.

### Key performance indicators

The Company assesses business performance over many indicators; both stand alone and also as a key part of the Decorative Paints European Business Unit. Full analysis of this business unit is provided in the annual report, pages 58 – 63, of Akzo Nobel N.V. as indicated above. The standalone indicators are presented in the below table.

Indicator	2016	2015	Delta
Turnover from sale of product	£9,860,000	£8,715,000	£1,145,000
Profit before tax	25%	24%	1%

Turnover includes both third parties and intercompany sales.

## **Strategic Report (*continued*)**

### **Research and development**

R&D is performed at central level in the Netherlands.

### **Future developments**

For 2017, we will continue with our current SMU organizational structure as this increases our customer focus and contributes to our growth ambitions for the coming years.

### **Principal risks and uncertainties**

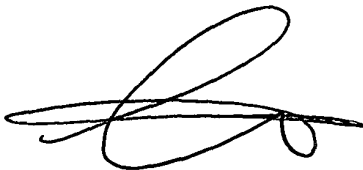
#### **Economy**

The Company recognises that the possible risks to its operations are unfavourable exchange rates and its exposure to credit risks, which are managed through reducing the Company's exposure to foreign currency and strict adherence to the Group's credit policy.

#### **Going concern**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors' are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors' are aware of that information.

On behalf of the Board



**G. Windsor**  
*Director*

Registered office:  
The AkzoNobel Building  
Wexham Road  
Slough  
SL2 5DS

29 September 2017

## Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2016.

### Results and dividends

The results for the year ended 31 December 2016 are set out on page 7 of the financial statements. The profit for the year after taxation was £2,117,000 (2015: £1,921,000). The net assets at 31 December 2016 were £5,896,000 (2015: £3,779,000).

### Directors

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

R. Marston                      Resigned August 25<sup>th</sup> 2017

G. Windsor

S. Ferriday                      Appointed September 26<sup>th</sup> 2017

### Employees

The Company's policy is to consider all job applications by disabled persons sympathetically in relation to the duties, responsibilities and physical requirements of the vacancies, the aptitudes of the applicants, including the nature of the disability, the working environment and the facilities required for the effective performance of the job by the applicant.

If any existing employee becomes disabled, the Company will examine any effects of the disability on current job performance and take all practicable steps to maintain the employees' continued employment through the provision of appropriate retraining, changes in working facilities or, with mutual agreement, the provision of alternative employment more closely related to the employees' capabilities.

The Company will continue to identify and monitor the employment of Registered Disabled persons to determine its position in relation to the current statutory requirements.

### Employee involvement

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

### Political contributions

The Company did not made any political donations or incurred any political expenditure during the current or prior year.

### Research and development and Future developments

Reference is made to the strategic report.

### Financial risk management

Financial risk includes price risk, credit risk, liquidity risk and cash flow risk. These are addressed and managed at a group level as disclosed in the AkzoNobel Report 2016, pages 47 to 53. An overall risk management program seeks to identify, assess and if necessary, mitigate these financial risks in order to minimise potential adverse effects on financial performance.

## Directors' Report (continued)

### 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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

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

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

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Independent auditors

On 3rd April 2017, KPMG LLP resigned as the Company's auditor, in line with the Group's planned rotation of audit firms. Pursuant to Section 485(3)(c) of the Companies Act 2006, PricewaterhouseCoopers LLP was appointed as the Company's auditor until the next period for appointing auditors.

On behalf of the Board



**L. Carter**  
Secretary

The AkzoNobel Building  
Wexham Road  
Slough  
SL2 5DS

29 September 2017

## **Independent auditors' report to the members of Akzo Nobel Aerospace Coatings Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, Akzo Nobel Aerospace Coatings 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 2016 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, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity 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 the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (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.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

#### **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.

## **Independent auditors' report to the members of Akzo Nobel Aerospace Coatings Limited (continued)**

### **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.

### **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 4, 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 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

**Miles Saunders (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP,**  
**Chartered Accountants and Statutory Auditor**  
3 Forbury Place  
23 Forbury Road  
Reading  
RG1 3JH  
United Kingdom

September 2017



**Statement of Comprehensive Income**  
*for the year ended 31 December 2016*

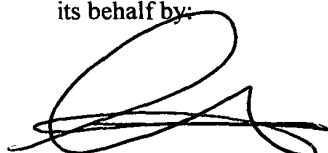
	<i>Note</i>	<b>2016</b> <b>£000</b>	Restated 2015 £000
Turnover	<i>4</i>	<b>9,860</b>	8,715
Cost of sales		<b>(3,763)</b>	(3,275)
<b>Gross profit</b>		<b>6,097</b>	5,440
Distribution costs		<b>(681)</b>	(573)
Administrative expenses		<b>(2,963)</b>	(2,747)
<b>Operating profit</b>		<b>2,453</b>	2,120
Other interest receivable and similar income	<i>6</i>	<b>20</b>	10
<b>Profit before taxation</b>		<b>2,473</b>	2,130
Tax on profit	<i>9</i>	<b>(356)</b>	(209)
<b>Profit and total comprehensive income for the financial year</b>		<b>2,117</b>	1,921

**Balance sheet**  
*at 31 December 2016*

	<i>Note</i>	<b>2016 £000</b>	<b>2015 £000</b>
Fixed assets	10	22	43
<b>Current assets</b>			
Stocks	11	194	155
Debtors (including £ 87K (2015 restated: £ 96K) due after more than one year)	12	7,950	5,448
		<hr/>	<hr/>
		8,144	5,603
<b>Creditors - amounts falling due within one year</b>	13	(2,270)	(1,867)
		<hr/>	<hr/>
<b>Net current assets</b>		5,874	3,736
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		5,896	3,779
		<hr/>	<hr/>
<b>Net assets</b>		5,896	3,779
		<hr/>	<hr/>
<b>Capital and reserves</b>	15		
Called up share capital		-	-
Share premium account		350	350
Retained earnings		5,546	3,429
		<hr/>	<hr/>
<b>Total Shareholders' funds</b>		5,896	3,779
		<hr/>	<hr/>

The notes on pages 10 to 22 are an integral part of these financial statements.

These financial statements on pages 7 to 22 were authorised for issue by the board of directors and were signed on its behalf by:



**G. Windsor**  
Director

29 September 2017

## Statement of changes in equity

	Called up share capital £000	Share Premium Account £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 January 2015	-	350	1,508	1,858
Profit for the financial year	-	-	1,921	1,921
Total comprehensive income for the financial year	-	-	1,921	1,921
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>350</b>	<b>3,429</b>	<b>3,779</b>

	Called up share Capital £000	Share Premium Account £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	-	350	3,429	3,779
Profit for the financial year	-	-	2,117	2,117
Total comprehensive income for the financial year	-	-	2,117	2,117
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>350</b>	<b>5,546</b>	<b>5,896</b>

## Notes to the financial statements

### 1 General information

Akzo Nobel Aerospace Coatings Limited (the "Company") is a private Company limited by shares and is incorporated and domiciled in the UK. The Company registration number is 218019 and the registered office address is The AkzoNobel Building, Wexham Road, Slough, United Kingdom SL2 5DS.

### 2 Accounting policies

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

#### 2.1 Basis of preparation

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

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

The financial statements are prepared on the historical cost basis.

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

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

- a Statement of Compliance with IFRS;
- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions entered in to by two or more members of a wholly owned group,
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- Certain disclosures required by IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors.

## Notes to the financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### 2.2 *Going concern*

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

#### 2.3 *New standards, amendments and IFRIC interpretations*

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the company.

#### 2.4 *Foreign currency translation*

##### *(a) Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

##### *(b) Transactions and balances*

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

#### 2.5 *Fixed assets*

All tangible fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings and leasehold improvements	10 to 15 years
Plant and equipment	5 to 10 years
Computer software	2 to 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

## Notes to the financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### 2.6 Inventories

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### 2.7 Debtors

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### 2.8 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

#### 2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

#### 2.10 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

#### 2.11 Current and deferred tax

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

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

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

## **Notes to the financial statements (continued)**

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

#### ***Current and deferred tax (continued)***

sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

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

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

#### ***2.12 Employee benefits***

##### ***Defined contribution plans***

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

##### ***Defined benefit plans***

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

#### ***2.13 Turnover***

##### ***Sale of goods***

Turnover represents the fair value of consideration received and receivable for goods and services supplied to customers after deducting sales allowances, rebates and value added taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, the revenue can be measured reliably and collectability is reasonably assured.

#### ***2.14 Interest income***

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

#### ***2.15 Leases***

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### ***2.16 Research and development expenditure***

Expenditure on research and development is charged to profit in the year in which it is incurred. If relevant criteria are met, it would be capitalised.

#### ***2.17 Dividends on shares presented within shareholders' funds***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## Notes to the financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### 2.18 Restatements

The Directors update the Financial Statements in line with IAS 8 where there is a material prior period error or where it is deemed that a voluntary change in accounting policies will result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. Details of the restatements can be found in notes 12 and 16.

### 3 Critical accounting estimates and judgements

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

#### 3.1 Critical accounting estimates and assumptions

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

##### *(a) Useful economic lives of tangible fixed assets*

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

##### *(b) Inventory provisioning*

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

##### *(c) Impairment of debtors*

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

##### *(d) Deferred tax asset recognition*

Deferred tax assets are only recognized on losses to the extent that future probable taxable profits will be available against which the deferred tax asset can be utilised. This is based upon future taxable profit forecasts of the Company.



## Notes to the financial statements *(continued)*

### Accounting policies *(continued)*

#### 4 Turnover

Analysis of turnover by geography:

	2016 £000	2015 £000
United Kingdom	8,535	7,681
Rest of Europe	1,286	1,009
Rest of World	39	25
	<u>9,860</u>	<u>8,715</u>

Analysis of turnover by category:

	2016 £000	2015 £000
Sale of goods	9,860	8,715
	<u>9,860</u>	<u>8,715</u>

#### 5 Expenses and auditors' remuneration

	2016 £000	2015 £000
Audit fees payable to the Company's auditors	8	14
Inventory recognised as an expense	3,763	3,275
Rental expenses – land and buildings	88	87
Depreciation charged to the statement of income	21	22
FX gains and losses on accounts receivable and payable	3	46
Lease expenses - Others	46	26
	<u>4,629</u>	<u>4,770</u>



## Notes to the financial statements *(continued)*

### 8 Staff numbers and costs

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

	2016 Number	2015 Number
<b>By activity</b>		
Distribution and sales	24	19
	<hr/>	<hr/>
	24	19
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	1,040	818
Social security costs	71	76
Other Pension costs (see note 17)	260	125
	<hr/>	<hr/>
	1,371	1,019
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 9 Tax on profit

#### Recognized in the statement of comprehensive income

<i>Analysis of charge in year</i>	2016 £000	2015 £000
<i>UK corporation tax</i>		
Current tax charge for the year	347	217
Total current tax	347	217
<i>Deferred tax</i>		
Origination and reversal of timing differences	(5)	(8)
Change in tax rate	14	-
Total deferred tax	9	(8)
Tax charge on profit on ordinary activities	356	209

#### Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit before taxation	2,473	2,130
Tax using UK corporation tax rate 20.00% (2015: 20.25%)	495	431
Tax rate changes	14	-
Difference between capital allowances for the year and depreciation	-	(8)
Expenses not deductible for tax purposes – other disallowable	5	5
UK to UK transfer pricing adjustment	(158)	(219)
Total tax charge	356	209

#### *Factors that may affect future current and total tax charges*

In the Autumn 2012 Budget Statement a corporation tax rate change was announced reducing the rate from 23% to 21% effective 1 April 2014 and in the Budget of March 2013 this 21% rate was further reduced to 20% effective from 1 April 2015. These changes were substantively enacted on 2 July 2013 and therefore the effective current tax rate applicable during 2015 was 20.25%. The rate applicable during 2016 was 20%.

In the Summer 2015 Budget Statement a corporation tax rate change was announced reducing the rate from 20% to 19% effective 1 April 2017, with a further reduction to 18% effective 1 April 2020. Both of these changes were substantively enacted on 26 October 2015. As a result of these changes, any deferred tax asset or liability at 31 December 2015 was recognised at 18%.

In the March 2016 Budget Statement a corporation tax rate change was announced reducing the rate from 18% to 17% effective 1 April 2020. This change was not substantively enacted at the balance sheet date but deferred tax assets at 31 December 2016 have been recognised at 17%.

#### *UK to UK transfer pricing adjustment*

The transfer pricing adjustment, relates to an allocation of the top up contributions to the defined benefits scheme, of which the Company is a participating entity.

## Notes to the financial statements (continued)

### 10 Tangible assets

	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>			
At beginning of year	230	399	629
At end of year	230	399	629
<b>Accumulated Depreciation</b>			
At beginning of year	(230)	(356)	(586)
Charge for year	-	(21)	(21)
At end of year	(230)	(377)	(607)
<b>Net book value</b>			
At 31 December 2016	-	22	22
At 31 December 2015	-	43	43

### 11 Stocks

	2016 £000	2015 £000
Finished goods and goods purchased for resale	194	155

### 12 Debtors

	2016 £000	Restated 2015 £000
Trade debtors	2,538	1,507
Amounts owed by group undertakings: due in less than one year	5,284	3,800
Other receivables	16	6
Prepayments and accrued income	25	39
Deferred tax asset ( note 14 )	87	96
	7,950	5,448
Due within one year	7,863	5,352
Due after more than one year	87	96

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Amounts owed to/by group undertakings include a balance of £4,145,000 (2015: £3,139,000) that is repayable on demand. Interest is charged monthly based on 1 month LIBOR -10 basis points.

Included in the deferred tax asset above are amount due after more than one year of £87,000 (2015: £96,000). These amounts were classified as due in less than one year in the prior year financial statements in error and have been reclassified to better reflect the expected recovery of the deferred tax asset.

## Notes to the financial statements *(continued)*

### 13 Creditors amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	350	84
Amounts owed to group undertakings	359	688
Other creditors	535	428
Group relief	859	507
Accruals and deferred income	167	160
	<u>2,270</u>	<u>1,867</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Equivalent consideration will be paid to fellow group companies to settle group relief balances

### 14 Deferred tax assets

#### *Recognised deferred tax assets*

Deferred tax assets are attributable to the following:

	2016 £000	2015 £000
Deferred tax asset at the beginning of the year	96	88
(Charge)/credit for the year	(9)	8
	<u>87</u>	<u>96</u>

Deferred tax assets are attributable to the following:

	2016 £000	2015 £000
Unutilised capital allowances	87	96

The deferred tax asset has been recognised as there is sufficient certainty that future probable taxable profits will be available against which the deferred tax asset can be utilised.

### 15 Called up share capital

	2016 £	2015 £
<i>Authorised, allotted, called up and fully paid</i>		
100 (2015: 100) ordinary shares of £1 each	100	100

All share capital is classified as shareholders' funds. There has been no movement in the number of shares in the current year. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes to the financial statements *(continued)*

### 16 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2016 Land and buildings £000	Restated 2015 Land and buildings £000
<b>Operating leases which expire</b>		
Not later than one year	88	88
Later than one year and not later than five years	352	352
Later than five years	88	176
	<hr/>	<hr/>

2015 commitments have been restated due to recording of leases in error for which we did not bare the legal liability. J.P. McDougall & Co. Ltd (another group undertaking) holds the liabilities for these.

The impact is the removal of £28,000 of other lease previously shown as "not later than one year" and £56,000 of other leases previously shown as "later than one year and not later than five years".

### 17 Pension Schemes

The Company operates both a defined contribution and a multi-employer defined benefit schemes for its employees.

#### Akzo Nobel (CPS) Pension Scheme

##### Defined benefit plans

The Company is a participant in two group wide defined benefit scheme – Akzo Nobel (CPS) Pension Scheme ("CPS") and ICI Specialty Chemicals Pension Fund ("the ISCPF"). As the legally sponsoring entities for these schemes, the financial statements of Akzo Nobel UK Ltd and Imperial Chemical Industries Limited respectively identify and disclose the information on the plans as prescribed by IAS19, and these financial statements are available from the Company's registered office at The AkzoNobel Building, Wexham Road, Slough, SL2 5DS or from Companies House. The contributions payable in respect of active members by the participating entities are determined following each triennial valuation conducted by qualified independent actuary, and charged as a percentage of salary costs. The charge recognised in respect of active members in 2016 was £185,000 (2015: £77,000). The group-wide policy is that funding deficits are not charged to non-sponsoring entities..

##### Defined contribution plans

The Company operates a defined contribution plan. The total expense relating to this plan was £75,000 (2015 £48,000).

##### Total Pension Contribution

The total contribution made by the Company during the year to both defined contribution plan and to the defined benefit plan was £260,000 (2015 £125,000).

## **Notes to the financial statements** *(continued)*

### **18 Ultimate parent company and parent undertaking of largest group of which the Company is a member**

The Company is a subsidiary undertaking of Akzo Nobel Coatings International B.V., incorporated in the Netherlands.

The largest group in which the results of the Company are consolidated is that headed by Akzo Nobel N.V., incorporated in the Netherlands and that company is considered to be the ultimate parent company. The smallest group in which they are consolidated is that headed by Akzo Nobel Coatings International B.V.

Copies of the Akzo Nobel N.V. Annual Report and Accounts are available to the public and may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.