

**Cytec Industrial Materials (Derby) Limited**

**Annual report and financial  
statements**

**Registered number 02264869**

**31 December 2016**



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## **Strategic report**

### **Business review**

#### ***Objectives***

The company's long term objective is to increase profitability and meet the objectives of Solvay S.A. ('Solvay'). In pursuing this objective the company intends to maintain sound financial management and avoid excessive risks.

#### ***Key business strategies***

In pursuit of its objectives the company has a number of key business strategies which have been successfully implemented over recent years.

We aim to increase sales by increasing product ranges with existing customers, increasing market share within our key markets and by delivering technology and products beyond our customers' imagination. We plan to improve our gross margin by fully leveraging the benefits of cross-business collaboration within Solvay.

#### ***Risks and uncertainties***

The key risk areas of the company are:

- customer pricing affecting sales and gross margin;
- loss of key customer accounts;
- volatility in commodity prices;
- foreign exchange risk; and
- The effect of the UK leaving the EU.

The company seeks to manage as far as possible the key risks that it faces.

Customer pricing is under constant review and is managed by our sales team. Excellent customer service and product quality as well as strong customer relations will continue to mitigate pricing pressures.

The customer base has expanded in recent years, reducing the financial risks faced by the loss of a customer account.

The buying power of the Solvay group reduces the adverse impact of movements in commodity prices.

Foreign exchange risk is managed by the group treasury function, through utilising group banking facilities and internal bank accounts.

Following the impact of the 'Brexit' referendum, we will continue to monitor the risks and opportunities involved with UK leaving the EU and the company will mitigate this through the Solvay group where possible.

Having considered the above risks and uncertainties, the directors have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Research and development**

The directors consider that the future of the Company depends upon the technical superiority of its products and service and they are committed to enhancing this superiority by continuing programmes of research and development.

It is company policy to take a prudent view of expenditure incurred on research programmes, all of which is written off in the year in which it is incurred, except to the extent that expenditure is recoverable from grant funding or to the extent the expenditure meets the definition of 'development' expenditure and is then capitalised.

## **Strategic report** *(continued)*

### **Key performance indicators**

The Company uses a number of financial measures to monitor progress against strategies and corporate objectives. These are summarised below:

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Turnover	<b>60,091</b>	55,743
Gross profit	<b>15,527</b>	15,791
Gross profit %	<b>25.8%</b>	28.3%
Operating profit/(loss)	<b>2,697</b>	(508)
Working capital	<b>13,579</b>	13,305

Turnover increased by 7.8% due to the activity on the high performance automotive contract continuing through until 2016. The decrease in gross profit percentage reflects the reduced margin achieved on the new business with lower end motor manufactures. The operating profit in the year was a significant improvement despite incurring costs of redundancies from cessation of non-core, business during the year. Working capital levels are monitored regularly and have remained static during the year.

In addition to financial measures, the board also monitors the company's operations with the objective of ensuring that safety, health and environmental considerations are at the core of all working practices. In measuring the success of this, the board reviews the level of reported incidents and monitors the training being undertaken by all relevant employees.

During the year, performance was good and as far as the board is aware, this is likely to be the case in the forthcoming year.

### **Future prospects**

Trading levels have reduced for the first quarter of 2017 with sales revenues reducing due to lower prices being obtained from a different customer base. However, production levels are at high capacity. Potential new business opportunities have been identified and these will continue to be evaluated and pursued. In addition further benefits are anticipated due to synergies that can be achieved as a member of the Solvay group of companies.

### **Environmental policy**

The Company is committed to adopting a responsible approach to environmental matters.

The management of the Company seeks to minimise any adverse impact on the environment from all aspects of the Company's operations by means of environmentally sound disciplines, which take practical steps to control effectively or eliminate any known pollution risks, without entailing excessive cost. Specifically, methods of minimising the environmental costs of disposal of waste, the recycling of wood, the re-use of cardboard and paper products, and the reduction of energy consumption.

Signed on behalf of the board



**Stephen Glennon**  
*Director*

Composites House, Sinclair Close  
Heanor Gate Industrial Estate  
Heanor  
Derbyshire  
DE75 7SP

29<sup>th</sup> September 2017

## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 December 2016.

### **Principal activities**

The principal activities of the Company comprise the manufacture and supply of impregnated composite materials, the manufacture of composite tooling and components and the supply of tooling block and ancillary materials.

### **Results and dividend**

Profit/(Loss) for the year to 31 December 2016 was £1,612,000 (2015: loss of £613,000). During the year no dividends (2015: *£nil*) were proposed and paid.

### **Research and development**

During the period £2,226,000 (2015: £2,807,000) was expended on research and development programmes by the Company.

### **Risk management and future developments**

Details of risk management and future developments are discussed in the Strategic Report on page 1 and 2 and form part of this report by cross reference.

### **Directors**

The directors who held office during the year and at the date of this report are as follows:

DJ Bernard	(Resigned 28 January 2016)
DS Clears	(Appointed 12 August 2016)
SM Glennon	
JD Norris	

### **Employees**

The Company seeks to ensure that all employees, job applicants and prospective job applicants, are afforded equality of job opportunity in all areas of employment.

The Health & Safety Policy fully recognises the Company's responsibility for the health and safety of employees and members of the community in which they work.

The Company places considerable value on the involvement of its employees and has continued its practice of keeping them informed of matters affecting them as employees, and on various matters affecting the performance of the company and Solvay group.

## **Directors' report (continued)**

### **Disclosure of information to auditor**

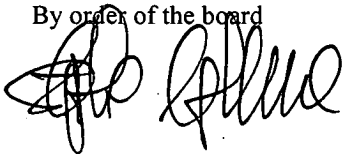
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself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

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

### **Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

By order of the board



**Stephen Glennon**  
*Director*  
29th September 2017

Composites House, Sinclair Close  
Heanor Gate Industrial Estate  
Heanor  
Derbyshire  
DE75 7SP

## **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101 Reduced Disclosure Framework.

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Independent auditor's report to the members of Cyttec Industrial Materials (Derby) Limited**

We have audited the financial statements of Cyttec Industrial Materials (Derby) Limited for the year ended 31 December 2016 which comprise Statement of Total Comprehensive Income, Balance Sheet, Statements of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including 'FRS 101 Reduced Disclosure Framework'.

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

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

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

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

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



## **Independent auditor's report to the members of Cyttec Industrial Materials (Derby) Limited** *(continued)*

### **Opinion 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 the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

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

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



Peter Gallimore FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Birmingham

United Kingdom

*29 September 2017*

## Statement of total comprehensive income for the year ended 31 December 2016

	Note	2016 £000	Revised 2015 £000
<b>Turnover</b>	2	60,091	55,743
Cost of sales		<u>(44,564)</u>	<u>(39,952)</u>
<b>Gross profit</b>		15,527	15,791
Administrative expenses – recurring		(12,310)	(12,846)
Administrative expenses – non-recurring	14c	(520)	(3,453)
Administrative expenses		<u>(12,830)</u>	<u>(16,299)</u>
<b>Operating profit/(loss)</b>		2,697	(508)
Income from shares in group undertakings			-
Interest receivable and similar income		39	1
Interest payable and similar charges	6	<u>(172)</u>	<u>(259)</u>
<b>Profit/(loss) before taxation</b>		2,564	(766)
Tax on profit/(loss)	7	<u>(952)</u>	<u>153</u>
<b>Profit/(loss) for the financial year</b>		<u>1,612</u>	<u>(613)</u>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability		(1,124)	42
Return on scheme assets greater/(less) than discount rate		2,908	(232)
Deferred tax arising on losses/gains in the pension scheme		<u>(300)</u>	<u>(18)</u>
<b>Other comprehensive income for the year, net of income tax</b>		<u>1,484</u>	<u>(208)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u>3,096</u>	<u>(821)</u>

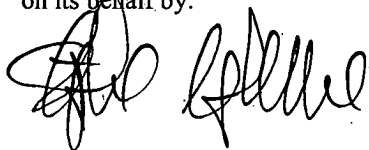
There has been a reclassification of costs from administrative expenses to cost of sales amounting to £10,953,207 (2015: £11,038,007).

All of the activities of the company are classified as continuing.

**Balance sheet**  
as at 31 December 2016

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Tangible assets	8	16,715	17,808
Investments	9	3,249	3,249
		<u>19,964</u>	<u>21,057</u>
<b>Current assets</b>			
Stocks	10	8,238	9,466
Debtors	11	19,441	13,930
Cash at bank and in hand		-	-
		<u>27,679</u>	<u>23,396</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(16,205)</u>	<u>(15,430)</u>
<b>Net current assets</b>		<u>11,474</u>	<u>7,966</u>
<b>Total assets less current liabilities</b>		<u>31,438</u>	<u>29,023</u>
<b>Provisions for liabilities</b>			
Deferred tax liability	13	(1,463)	(462)
Pension liability	14	(1,036)	(2,718)
		<u>(2,499)</u>	<u>(3,180)</u>
<b>Net assets</b>		<u>28,939</u>	<u>25,843</u>
<b>Capital and reserves</b>			
Called up share capital	15	1,209	1,209
Profit and loss account		27,730	24,634
<b>Shareholders' funds</b>		<u>28,939</u>	<u>25,843</u>

These revised financial statements were approved by the board of directors on 29<sup>th</sup> September 2017 and were signed on its behalf by:



**Stephen Glennon**  
Director

Company registered number: 02264869

## Statement of changes in equity

	<i>Note</i>	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015		1,209	25,455	26,664
<b>Total comprehensive income for the year</b>				
Loss for the financial year		-	(613)	(613)
<i>Other comprehensive income</i>	<i>14</i>			
Remeasurements of defined benefit liability		-	42	42
Return on scheme assets less than discount rate		-	(232)	(232)
Deferred tax arising on gains in the pension scheme		-	(18)	(18)
Total comprehensive loss for the year		-	(821)	(821)
<b>Balance at 31 December 2015</b>		<b>1,209</b>	<b>24,634</b>	<b>25,843</b>
		Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016		1,209	24,634	25,843
<b>Total comprehensive income for the year</b>				
Profit for the financial year		-	1,612	1,612
<i>Other comprehensive income</i>	<i>14</i>			
Remeasurements of defined benefit liability/asset		-	(1,124)	(1,124)
Return on scheme assets greater than discount rate		-	2,908	2,908
Deferred tax arising on losses in the pension scheme		-	(300)	(300)
Total comprehensive income for the year		-	3,096	3,096
<b>Balance at 31 December 2016</b>		<b>1,209</b>	<b>27,730</b>	<b>28,939</b>

## Notes

(forming part of the revised financial statements)

### 1 Accounting policies

Cytec Industrial Materials (Derby) Limited (the "Company") is a company limited by shares incorporated and registered in the UK (England and Wales).

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These revised financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Solvay S.A. includes the Company in its consolidated financial statements. The consolidated financial statements of Solvay S.A. are prepared in accordance with Adopted IFRSs and are available to the public and may be obtained from [www.solvay.com](http://www.solvay.com) or Solvay SA, rue de Ransbeck 310, B-1120, Brussels.

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Solvay S.A. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these revised financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the revised financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

## Notes (continued)

### 1 Accounting policies (continued)

#### Adoption of new and revised Standards

##### Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 <i>Disclosure Initiative</i>	<p>The Company has adopted the amendments to IAS 1 <i>Disclosure Initiative</i> for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.</p> <p>The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Company.</p>
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#### 1.1. Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2. Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review section of the Strategic report on page 1.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The directors have prepared cash flow forecasts for a 12 month period from the date of approval of these financial statements and such forecasts have indicated that sufficient funds should be available to enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As a result, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

#### 1.3. Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies 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. Foreign exchange differences arising on translation are recognised in the profit and loss account.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.4. Classification of financial instruments issued by the Company**

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these revised financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### **1.5. Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Investments in debt and equity securities*

Investments in subsidiaries are carried at cost less impairment.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.5 Non-derivative financial instruments (continued)

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### 1.6 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

#### 1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	4.55%
Improvements to leasehold property	Over the period of the lease
Plant and machinery	6.6% to 15%
Motor vehicles	25%
Computer equipment	20% to 33%

Assets under construction are included within the relevant asset class to which they belong, however no depreciation is charged until they are fully commissioned.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### 1.8 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### 1.9 Impairment excluding stocks and deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.



## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.19 Impairment excluding stocks and deferred tax assets (continued)**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **1.10. Employee benefits**

##### *Defined contribution plans*

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

##### *Defined benefit plans*

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

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

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

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

##### *Share-based payment transactions*

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are

## **Notes** *(continued)*

### **1** **Accounting policies** *(continued)*

expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.11. Turnover

Turnover is recognised in the profit and loss account when goods or services are supplied to customers against orders received, the significant risks and rewards of ownership have been transferred to the customer and the amount of turnover can be measured reliably. Turnover excludes value added tax and other similar sales taxes. No turnover is recognised where the recovery of the consideration is not probable. Turnover is stated after the deduction of discounts and allowances and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted in the light of contractual and legal obligations, historical trends, past experience and projected market conditions.

#### 1.12. Expenses

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

##### *Interest receivable and Interest payable*

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

#### 1.13. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### 1.14. Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### 2 Turnover

All turnover is generated from the sale of goods in relation to the principal activity of the Company.

	2016 £000	2015 £000
<i>Geographical split of turnover is as follows:</i>		
United Kingdom	19,267	18,462
Rest of Europe	34,450	31,267
North America	1,529	3,010
Rest of the world	4,845	3,004
	<u>60,091</u>	<u>55,743</u>

## Notes (continued)

### 3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 £000	2015 £000
Research and development expensed as incurred	2,226	2,807
Depreciation of tangible fixed assets	1,648	1,835
Operating lease rentals	405	448
Foreign exchange loss (gain)	164	12
Cost of stock recognised as an expense	30,914	27,714

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	48	48

There are no non audit services for the current and prior year.

### 4 Staff numbers and costs

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

	Number of employees 2016	2015
Production	145	175
Non-production and administration	74	81
	219	256

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	10,673	10,913
Social security costs	1,366	1,176
Contributions to defined contribution plans	573	628
Share based payments (note 14)	520	3,453
	13,132	16,170

### 5 Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	555	939
Company contributions to money purchase pension plans	30	35

The aggregate of remuneration of the highest paid director was £277,000 (2015: £524,000), and company pension contributions of £4,000 (2015: £22,000) were made to a money purchase scheme on his behalf.

	Number of directors 2016	2015
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3

## Notes (continued)

### 6 Interest payable and similar charges

	2016 £000	2015 £000
Net interest on bank overdraft	70	164
Net interest on net defined benefit pension plan liability	102	95
Total other interest payable and similar charges	<u>172</u>	<u>259</u>

### 7 Taxation

#### Recognised in the profit and loss account

	2016 £000	2015 £000
<i>UK corporation tax</i>		
Current tax on profit/(loss) for the year	663	(871)
Adjustments in respect of prior periods	(410)	(139)
Total current tax	253	(1,010)
<i>Deferred tax (see note 13)</i>		
Origination and reversal of temporary differences	(17)	747
Reduction in tax rate	(2)	(24)
Adjustment in respect of prior periods	718	134
Total deferred tax	699	857
Tax on profit/(loss) on ordinary activities	<u>952</u>	<u>(153)</u>

#### Income tax recognised in other comprehensive income

	2016 £000	2015 £000
Remeasurements of defined benefit liability	<u>300</u>	<u>18</u>

#### Reconciliation of effective tax rate

Corporation tax is calculated at 20% (2015:20.25%) of the estimated taxable loss for the year.

The charge/(credit) for the year can be reconciled to the statement of profit and loss account and other comprehensive income as follows:

	2016 £000	2015 £000
Profit/(loss) on ordinary activities before taxation	<u>2,564</u>	<u>(766)</u>
Profit/(loss) for the year multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	513	(155)
Effects of:		
Reduction in tax rate on deferred tax balances	(2)	(24)
Adjust closing deferred tax to average rate	68	(93)
Non-deductible expenses	65	124
Under/(Over) provided in prior years	<u>308</u>	<u>(5)</u>
Total tax expense/(credit)	<u>952</u>	<u>(153)</u>

## Notes (continued)

### 7 Taxation (continued)

A reduction to the UK corporation tax rate from 21% to 20% took effect from 1 April 2015. Finance Act 2015 (No.2), which was substantively enacted in October 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 17% from 1 April 2020.

### 8 Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Motor vehicles, plant and machinery £000	Computer equipment £000	Total £000
<b>Cost</b>					
Balance at 1 January 2016	10,423	277	16,289	489	27,478
Additions	(14)	-	564	7	557
Transfers	(2)	16	(161)	33	(114)
Disposals	-	-	(1,818)	-	(1,818)
Balance at 31 December 2016	<u>10,407</u>	<u>293</u>	<u>14,874</u>	<u>529</u>	<u>26,103</u>
<b>Depreciation</b>					
Balance at 1 January 2016	1,283	105	7,867	415	9,670
Depreciation charge for the year	616	46	990	(4)	1,648
Transfers	(2)	16	(161)	33	(114)
Disposals	-	-	(1,816)	-	(1,816)
Balance at 31 December 2016	<u>1,897</u>	<u>167</u>	<u>6,880</u>	<u>444</u>	<u>9,388</u>
<b>Net book value</b>					
At 1 January 2016	<u>9,140</u>	<u>172</u>	<u>8,422</u>	<u>74</u>	<u>17,808</u>
At 31 December 2016	<u>8,510</u>	<u>126</u>	<u>7,994</u>	<u>85</u>	<u>16,715</u>

Included in the cost of tangible fixed assets is £110,000 (2015: £89,000) in respect of capitalised finance costs.

### 9 Fixed asset investments

	Shares in group undertakings £000
<b>Cost</b>	
At 1 January 2016	4,321
Disposals	(1)
At 31 December 2016	<u>4,320</u>
<b>Provisions</b>	
At 1 January 2016	1,072
Disposals	(1)
At 31 December 2016	<u>1,071</u>
<b>Net book value</b>	
At 31 December 2016 and 31 December 2015	<u>3,249</u>

## Notes (continued)

### 9 Fixed asset investments (continued)

The Company has the following investments in subsidiaries:

Name	Country of registration	Principal activity	Shareholding
Advanced Composite Components Limited	England and Wales	Dormant	100%
Advanced Composites Limited	England and Wales	Dormant	100%
Advanced Composite Materials Limited	England and Wales	Dormant	100%
Cytec Industrial Materials (Manchester) Limited	England and Wales	Manufacture of impregnated materials used for the manufacture of composite tooling and components.	100%
Advanced Composites Group SA Pty	South Africa*	Dormant	100%

Advanced Composites Materials Limited was dissolved on 4 April 2017.

All UK registered companies are registered at Composites House, Sinclair Close, Heanor, Derbyshire, DE75 7SP.

\*South Africa - Olive Grove Industrial Estate, Ou Paardevlei Road, Somerset West 7130, Western Cape, South Africa

### 10 Stocks

	2016 £000	2015 £000
Raw materials and consumables	5,007	4,461
Work in progress	414	821
Finished goods	2,817	4,184
	<u>8,238</u>	<u>9,466</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £29,000,000 (2015: £28,000,000). The write-down of stocks to net realisable value amounted to £1,119,000 (2015: £914,000).

### 11 Debtors

	2016 £000	2015 £000
Trade debtors	13,399	8,879
Amounts owed by subsidiary company	24	13
Amounts owed by fellow group undertakings	3,518	2,997
Other debtors	819	712
Corporation tax	888	1,048
Prepayments and accrued income	793	281
	<u>19,441</u>	<u>13,930</u>
Due within one year	<u>19,441</u>	<u>13,930</u>

Amounts owed from group undertakings are unsecured, interest free and repayable on demand.

## Notes (continued)

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

	2016 £000	2015 £000
Bank overdrafts	-	2,082
Trade creditors	8,058	5,040
Amounts owed to subsidiary company	431	388
Amounts owed to fellow group undertakings	3,872	3,388
Other creditors	1,812	1,420
Accruals and deferred income	2,032	3,112
	<u>16,205</u>	<u>15,430</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. The bank overdraft incurs interest at a variable market rate.

### 13 Deferred tax assets and liabilities

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Tangible fixed assets	-	-	(1,663)	(966)	(1,663)	(966)
Other	21	15	-	-	21	15
Employee benefits	179	489	-	-	179	489
	<u>200</u>	<u>504</u>	<u>(1,663)</u>	<u>(966)</u>	<u>1,463</u>	<u>(462)</u>
Tax assets / (liabilities)	200	504	(1,663)	(966)	1,463	(462)
Net of tax liabilities/(assets)	(200)	(504)	200	504	-	-
	<u>-</u>	<u>-</u>	<u>(1,463)</u>	<u>(462)</u>	<u>(1,463)</u>	<u>(462)</u>
Net tax assets / (liabilities)	-	-	(1,463)	(462)	(1,463)	(462)

#### *Movement in deferred tax during the year*

	1 January 2016 £000	Recognised in income £000	31 December 2016 £000
Tangible fixed assets	(966)	(697)	(1,663)
Other	15	6	21
Employee benefits	489	(310)	179
	<u>(462)</u>	<u>(1,001)</u>	<u>(1,463)</u>



## Notes (continued)

### 13 Deferred tax assets and liabilities (continued)

*Movement in deferred tax during the prior year*

	1 January 2015 £000	Recognised in income £000	31 December 2015 £000
Tangible fixed assets	(174)	(697)	(1,663)
Other	70	6	21
Employee benefits	517	(310)	179
	<u>(462)</u>	<u>(1,001)</u>	<u>(1,463)</u>

### 14 Employee benefits

#### a) Defined benefit plans

The Company is a member of the Advanced Composites Group pension scheme providing benefits based on final pensionable pay. The plan is for the benefit of all relevant employees of Cytec Industrial Materials (Derby) Limited. The scheme was closed to future accruals on 30 April 2014.

	2016 £000	2015 £000
Total defined benefit asset	(19,492)	(16,487)
Total defined benefit liability	<u>20,528</u>	<u>19,205</u>
Net liability for defined benefit obligations	<u>1,036</u>	<u>2,718</u>

*Movements in net defined benefit liability*

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Balance at 1 January	19,205	18,816	(16,487)	(16,230)	2,718	2,586
Included in profit or loss						
Current service cost	-	-	-	-	-	-
Interest cost/(income)	711	701	(609)	(606)	102	95
Included in OCI	711	701	(609)	(606)	102	95
Remeasurements loss/(gain):						
Actuarial loss (gain) arising from						
- Changes in demographic Assumptions	(202)	(37)	-	-	(202)	(37)
- Change in financial assumptions	1,494	(5)	-	-	1,494	(5)
- Experience adjustment	(168)	-	-	-	(168)	-
Return on plan assets greater/(less) than discount rate	-	-	(2,908)	232	(2,908)	232
	<u>1,124</u>	<u>(42)</u>	<u>(2,908)</u>	<u>232</u>	<u>(1,784)</u>	<u>190</u>
Other						
Contributions paid by the employer	-	-	-	(153)	-	(153)
Scheme participants' contributions	-	-	-	-	-	-
Benefits paid	(512)	(270)	512	270	-	-
Balance at 31 December	<u>20,528</u>	<u>19,205</u>	<u>(19,492)</u>	<u>(16,487)</u>	<u>1,036</u>	<u>2,718</u>

## Notes (continued)

### 14 Employee benefits (continued)

Plan assets	2016 £000	2015 £000
Cash and cash equivalents	201	49
Equity instruments	15,323	13,321
	<hr/>	<hr/>
	15,524	13,370
Debt instruments	3,968	3,117
	<hr/>	<hr/>
<b>Total</b>	<b>19,492</b>	<b>16,487</b>
	<hr/>	<hr/>

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated. All other plan assets are not quoted in an active market. All are quoted at fair value.

#### Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2016 %	2015 %
Discount rate at 31 December	2.70	3.75
Future salary increases	n/a	n/a
Future pension increases	3.40	3.25

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.2 years (male), 24.2 years (female).
- Future retiree upon reaching 65: 23.9 years (male), 26.1 years (female).

#### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

	2016 £000	2015 £000
Discount rate – down 1%	4,734	4,664
Inflation (RPI, CPI)- including pension increases - up 1%	3,197	3,857

In valuing the liabilities of the pension fund at 31 December 2016, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2016 would have increased by £616,000 (2015: £742,000) before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 May 2014 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

The Scheme's investment strategy is to achieve a mix of investments for long-term growth and to meet short-term benefit payments. The current target asset allocation is to hold 80% in equities and 20% in bonds.

## **Notes (continued)**

### **14 Employee benefits (continued)**

#### **Funding**

The Company's cash contribution to the Scheme is determined in accordance with the Pensions Act 2004. The Company expects to pay £nil in contributions to its defined benefit plans in 2017. The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2015: 23 years).

#### **b) Defined contribution plans**

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £573,000 (2015: £628,000).

#### **c) Share based payments**

A number of employees were participants in The 1993 Stock Award and Incentive Plan, as amended on 31 January 2012 of Cytec Industries Inc. ('the plan'). Under the terms of the plan, the employees were entitled to stock options and stock-settled share appreciation rights ('SARS'). The plan was considered to be an equity settled group share based scheme under IFRS 2 *Share-based payments*. Details of the plan can be found in the annual report of Cytec Industries Inc. for the year ended 31 December 2014. During the year, employees exercised 60,525 options and 18,074 SARS.

Following the acquisition of Cytec Industries Inc. by Solvay S.A. for \$75.25 per share on 9 December 2015, the share based payment schemes were cancelled, and converted into a right for the employees to receive cash for any outstanding awards. The exercise of the options and subsequent cancellation has led to a charge in the profit and loss account of £520,000 in the current year in relation to the cancellation of these awards for employees of the Company. Following the cancellation, the employees hold no further options in relation to the plan.

## Notes (continued)

### 15 Capital and reserves

#### Share capital

	2016 £000	2015 £000
<i>Allotted, called up and fully paid</i>		
209,000 ordinary shares of £1 each	209	209
1,000,000 8% cumulative redeemable preference shares of £1 each	1,000	1,000
	<u>1,209</u>	<u>1,209</u>
Shares classified in shareholders' funds	<u>1,209</u>	<u>1,209</u>
	<u>1,209</u>	<u>1,209</u>

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.

#### *8% cumulative convertible redeemable preference shares*

The preference shares were due for redemption on 31 December 1995 at a premium calculated by reference to formulae set out in the company's Articles of Association. This redemption did not take place due to a lack of distributable reserves within the company at that time. No further redemption date is included in the terms of the shares. Since 31 December 1995, the shares have been convertible at any time at the option of the shareholder to ordinary shares and deferred shares, based on a formula set out in the Articles of Association. On that basis, the 1,000,000 preference shares would in total convert to 34,211 ordinary shares and 965,789 deferred shares, at 31 December 2016. This conversion is fixed.

The preference shares have a right to a cumulative dividend at 8% per annum, payable in preference to payments to the holders of any other class of shares. Interest is payable at 2% over the bank base rate on any arrears of dividend to be accounted for as an additional distribution to the shareholders.

On a return of assets, the shareholders have the right to receive the amount subscribed, being par value, plus any arrears of dividend in preference to the holders of any other class of shares.

Due to failure of the company to redeem the shares on the date fixed for redemption the preference shareholders have the right to vote at any general meeting providing written notice is given to the company. The number of votes is such that the preference shareholders are entitled in total to one more vote than the number of votes exercisable by all the other members of the company.

### 16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	300	357
Between one and five years	386	365
More than five years	-	-
	<u>686</u>	<u>722</u>

During the year £405,000 was recognised as an expense in the profit and loss account in respect of operating leases (2015: £448,000).

The Company currently has lease arrangements in place for car leases as well as the land on which its premises are located.

## **Notes** *(continued)*

### **17 Commitments**

#### *Capital commitments*

During the year ended 31<sup>st</sup> December 2016, the Company entered into a contract to purchase property, plant and equipment for £591,000 (2015: £435,000).

### **18 Ultimate parent company and parent company of larger group**

The Company is a subsidiary undertaking of Solvay S.A. which is the ultimate parent company incorporated in Belgium, and which is considered to be the ultimate controlling party

The largest group in which the results of the Company are consolidated is that headed by Solvay S.A. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from [www.solvay.com](http://www.solvay.com) or from the registered office of Solvay SA, rue de Ransbeck 310, B-1120, Brussels.

### **19 Accounting estimates and judgements**

#### *Key sources of estimation uncertainty*

The preparation of the revised financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

#### *Defined benefit pension scheme*

The determination of the pension cost and defined benefit obligation of the Company's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth and mortality. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods.

#### *Stock valuation*

The determination of the valuation of inventory involves the estimation of the net realisable value of individual product lines. The Company has a formal policy for making appropriate reserves to ensure inventories are stated at the lower of cost and net realisable value. This policy requires assumptions to be made regarding future demand levels and these assumptions are partly dependent upon prevailing market and economic conditions, which are outside the Company's control.

#### *Critical accounting judgements in applying the Company's accounting policies*

The directors do not consider that there are any critical accounting judgements in applying the Company's accounting policies.

### **20 Reclassification of costs**

There has been a reclassification of payroll related costs from administrative expenses to cost of sales amounting to £10,953,207 (2015: £11,038,007). The reclassification was carried out in order to reflect a more accurate model of gross margin calculation and period cost recognition.