

# **PERSTORP UK LTD**

## **Annual Report and Financial Statements for the year ended 31 December 2013**

Company Registered Number: 2715398

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## **PERSTORP UK LTD**

### **DIRECTORS AND ADVISERS**

#### **Directors**

A Lundin  
D Turner  
E Sohlberg  
J Driessen

#### **Bankers**

Svenska Handelsbanken AB  
Manchester Branch  
First Floor, Sunlight House  
Quay Street  
Manchester  
M3 3JZ

Svenska Handelsbanken AB  
Niederlassung Frankfurt  
An der Hauptwache  
60313 Frankfurt am Main  
Germany

Nordea Bank Finland Plc  
New York Branch  
437 Madison Avenue  
New York, NY 10022  
USA

#### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

BUSINESS REVIEW

The caprolactone production platform was developed in the 1980s, first producing monomers. Since then the product range has increased with polycaprolactones and thermoplastic caprolactones being produced in many different varieties. In many cases, customers have co-operated in development and today Perstorp UK LTD is the world-leader in every part of the process. Caprolactones in different forms are present in applications such as adhesives, paints and lacquers as well as polyurethane elastomers such as shoe soles and vehicle components.

The caprolactones business was acquired from the Belgium chemical group Solvay in January 2008, and the capacity was substantially expanded in 2011.

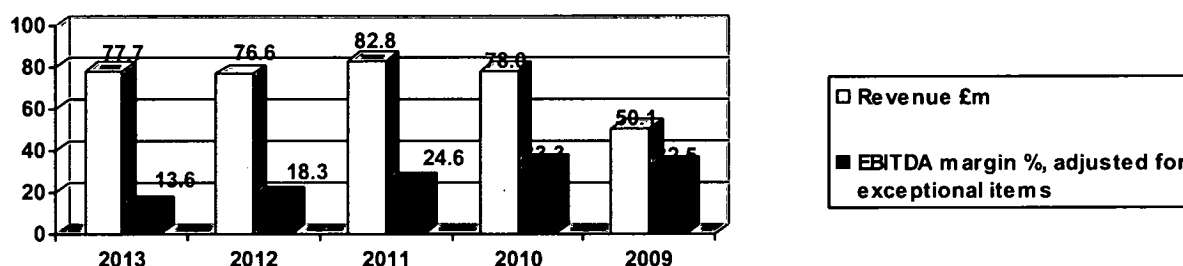
TRADING RESULTS AND DIVIDEND

The operating (loss) for the year was (£811k) (2012: profit £2,420k). The operating loss was lower than the 2012 profit due to pressure on margins due to competition and higher raw material and utility prices.

The balance sheet has net assets of £23,628k (2012: £32,955k).

The directors do not recommend payment of a dividend for the year (2012: £nil).

KEY PERFORMANCE INDICATOR



EBITDA (Earnings before the deduction of interest, tax, depreciation and amortisation) is the key performance indicator. The EBITDA margin is calculated as EBITDA, adjusted for exceptional items, as a percentage of Revenue.

PRINCIPAL RISKS AND UNCERTAINTIES

**Access to raw materials:** The company has several raw materials that are key in the production process. To safeguard supplies of raw materials the company has a purchasing policy that requires that supplies of critical raw materials are purchased from several suppliers where possible or that long-term agreements are entered into if this is not possible.

**Production disruptions:** Disruptions on the production plant may lead to a loss of earnings in the short-term if the company cannot deliver agreed volumes to customers and in the long-term if this leads to alternative products taking over for the same application. Regular technical risk inspections are performed in order to minimise these risks. Suitable insurance is in place in the event of disruptions.

More details about risk management (including financial risk management) appear in note 3 to the accompanying financial statements.

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**FUTURE DEVELOPMENTS**

The year ahead brings many significant opportunities to consolidate our foothold in our selected markets, and to seek to successfully leverage on growth opportunities in existing and new markets throughout the world.

**ON BEHALF OF THE BOARD**

A large, stylized handwritten signature in black ink, likely belonging to E Sohlberg, is written over the printed name and date.

E Sohlberg  
Managing Director  
29 September 2014

Company Registered Number: 2715398

## **PERSTORP UK LTD**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2013.

#### **PRINCIPAL ACTIVITIES**

The principal activity of the company is the manufacture and selling of chemicals and polymers. The company also acts in the capacity of an agent to Perstorp group companies.

#### **BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared on the going concern basis and under the historical cost convention.

#### **GOING CONCERN**

The Directors are confident that the company will continue as a going concern, due to forecasts of increasing sales volumes, sourcing and efficiency improvements. The Directors have received continuing support from the parent company in the form of a commitment that short term borrowings of £26,000k on a rolling facility need not be repaid unless the company has sufficient cash to be able to repay such amounts.

#### **DIVIDENDS**

No dividends were paid or recommended during the year (2012: Nil).

#### **MISSION, VISION, VALUES AND STRATEGY**

Perstorp UK LTD has adopted and conforms with the mission, vision, values and strategy of the wider Perstorp group. Perstorp's mission is to provide sustainable solutions through innovative chemistry to the market segments that we serve. Our vision is to contribute to a better, more sustainable world through innovative chemical solutions.

The core values of Perstorp are focused innovation, reliability and responsibility. Innovation means developing new products or finding new areas of use for existing products, developing new processes or optimising existing ones. The innovation process aims to meet unfilled needs that exist in the market place and focuses on making products and processes better, cheaper, faster and with less environmental impact.

The value of reliability involves making continuous improvement a part of the daily routine for every employee and Perstorp a reliable partner. Perstorp seeks long-term relationships with its customers and believes that an open and honest dialogue is an important part of this.

Responsibility is one of Perstorp's core values permeating through all activities. This has many aspects and includes taking responsibility for staff and providing good working conditions and development opportunities for everyone, being a good employer in the local community and working for sustainable development in terms of the environment.

Since 2004, the wider Perstorp group has participated in and supported the UN initiative Global Compact. The compact sets ten principles covering human rights, the environment, working conditions and anti-corruption. Perstorp develops its working practices year-on-year in line with this initiative, such as the Code of Conduct which was drawn up at the end of 2008.

Perstorp's Code of Conduct covers four areas – Business Principles, Products and Environment, Working Conditions and Human Rights. Particular attention is paid to rules on competition law within the EU, as there is a lot of work going on in cooperation with competitors in the framework of the REACH legislation on chemicals.

In addition to the Code of Conduct, the Perstorp group has a policy on the environment, health and safety, that determines how employees behave and act in a responsible way. These basic policies are published on [www.perstorp.com](http://www.perstorp.com).

Perstorp UK LTD is the market leader in the caprolactones market and the company is seeking to expand by greater innovation and focused sales and marketing efforts in order to utilise the additional production capacity that became available in 2011.

#### **DEVELOPMENT OF EMPLOYEES**

The company has a detailed process that closely analyses the future expertise requirements of the employees while ensuring that a workplace is created where the employees can thrive and deploy their talent. The first stage of the process is to attract and recruit. The company works on recruiting the best talents available based upon a strategic skills requirement. The second stage is to review and retain, the company evaluates the profiles for managers and other functions and compares them with future skills requirements. The skills gap – both for the individual and the company – is closed with the help of a business-driven development process.

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**DEVELOPMENT OF EMPLOYEES (continued)**

In the third phase the company ensures that all individuals have a development plan that derives from their desires and the company's requirements. Training, mentorship and coaching is carried out to close the gap. The fourth phase is redeploy and reward. The company makes sure that there is a natural next step for the individual in line with the planned development and company's requirements.

In the process, individual competencies, ambitions and abilities are gathered together early on so that development can be planned over a longer period and the company will seek to ensure that there is always a replacement ready for all key positions.

**DIRECTORS**

The directors who have held office during the period from 1 January 2013 to the date of signing this report:

A Lundin  
D Turner  
E Sohlberg

The following directors were appointed after the year end date but before the date of signing this report:

M Gronberg – appointed 2 January 2014  
J Driessen – appointed 16 May 2014

The following directors resigned after the year end date but before the date of signing this report:

E Walter – resigned 16 May 2014  
M Gronberg – resigned 16 May 2014

**FUTURE DEVELOPMENTS**

A comment on future developments is included in the Strategic Report (page 4).

**FINANCIAL RISK MANAGEMENT**

A comment on financial risk management is included in Note 3 to the accompanying financial statements.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**QUALIFYING THIRD PARTY AND PENSION SCHEME INDEMNITY PROVISIONS**

At the time this report is approved, no qualifying third party indemnity provisions or qualifying pension scheme indemnity provisions are in place for the benefit of one or more of the directors. At no time during the year were any such provisions in force for the benefit of one or more persons who were then directors.

**EMPLOYEES**

The number of employees at the end of the year was 88 (2012: 86). This total comprised 76 males and 12 females all of whom were employed in the UK.

**THE ENVIRONMENT**

The company works proactively to develop and improve its products and processes and has targets for safety, health and the environment. Environmental targets focus on use of energy and water.

The production of the company affects the environment through emissions in air and water and through the generation of waste and noise. The company follows national and local requirements relating to the environment. The company also ensures that it complies with the REACH registration requirements for the chemical industry.

The Perstorp group produces a sustainability report with the consolidated financial statements. The consolidated financial statements of the group are available to the public and may be obtained from Perstorp Holding AB, Perstorp S-284 80, Sweden or from the group website [www.perstorp.com](http://www.perstorp.com).

**CREDITOR PAYMENT POLICY**

The company does not follow a universal code which deals specifically with payments to suppliers but, where appropriate, the company's practice is to:

- a) agree the terms at the start of business with the supplier;
- b) ensure that those suppliers are made aware of the terms of payment; and
- c) pay in accordance with its contractual and other legal obligations

Trade creditors at 31 December 2013 were equivalent to 53 days (2012: 63 days) of purchases (including capital expenditure) during the year ended on that date.

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**INDEPENDENT AUDITORS**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

**ON BEHALF OF THE BOARD**



E Söhlberg  
Managing Director  
29 September 2014

Company Registered Number: 2715398

## **Independent auditors' report to the members of Perstorp UK Ltd**

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

#### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

#### **What we have audited**

The financial statements, which are prepared by Perstorp UK Ltd, comprise:

- the Balance sheet as at 31 December 2013;
- the Income statement for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement 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 their preparation is applicable law and IFRSs as adopted by the European Union.

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.

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

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 other matter prescribed by the Companies Act 2006**

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

## **Independent auditors' report to the members of Perstorp UK Ltd**

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

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

#### **Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 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.



Jonathan Studholme (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
29 September 2014

**Income statement**  
for the year ended 31 December

<b>Continuing operations</b>	<b>Note</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Revenue	4	77,704	76,594
Cost of sales		(57,147)	(52,661)
<b>Gross profit</b>		<b>20,557</b>	<b>23,933</b>
Distribution costs		(16,494)	(17,255)
Administration expenses		(4,162)	(3,435)
Other operating expenses	6	(712)	(823)
<b>Operating (loss) / profit</b>		<b>(811)</b>	<b>2,420</b>
Finance income	7	468	2,801
Finance costs	8	(8,858)	(7,958)
<b>Loss before income tax</b>	5	<b>(9,201)</b>	<b>(2,737)</b>
Income tax (charge) / credit	9	(126)	1,167
<b>Loss for the year attributable to the owners of the parent</b>		<b>(9,327)</b>	<b>(1,570)</b>

All items dealt with in the income statement relate to continuing operations.

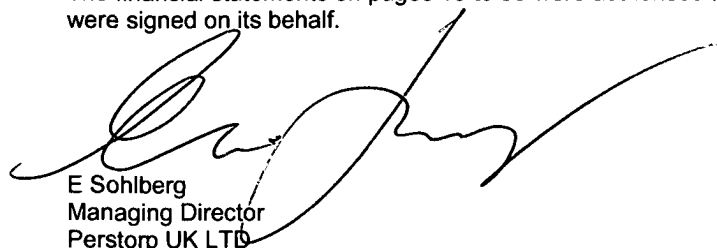
The company has no recognised gains or losses other than those included in the results above and therefore no statement of comprehensive income has been prepared.

The annexed notes form part of these financial statements.

**Balance sheet as at 31 December**

	Note	2013 £'000	2012 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	10	68,431	70,307
Goodwill	11	26,186	26,186
Customer relations	11	11,620	13,975
Non-compete agreement	11	308	4,006
REACH costs	11	319	212
Deferred income tax assets	12	6,974	7,446
<b>Total non-current assets</b>		<b>113,838</b>	<b>122,132</b>
<b>Current assets</b>			
Inventories	13	7,790	8,876
Trade and other receivables	14	9,880	11,766
Cash and cash equivalents	25	9,782	11,639
<b>Total current assets</b>		<b>27,452</b>	<b>32,281</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(11,815)	(13,378)
Obligations under finance leases	16	(12)	-
Borrowings	17	(26,962)	(28,185)
<b>Total current liabilities</b>		<b>(38,789)</b>	<b>(41,563)</b>
<b>Net current liabilities</b>		<b>(11,337)</b>	<b>(9,282)</b>
<b>Non-current liabilities</b>			
Borrowings	17	(71,376)	(72,099)
Obligations under finance leases	16	(47)	-
Deferred income tax liabilities	12	(7,450)	(7,796)
<b>Total non-current liabilities</b>		<b>(78,873)</b>	<b>(79,895)</b>
<b>Net assets</b>		<b>23,628</b>	<b>32,955</b>
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	18	29,702	29,702
Retained earnings		(6,074)	3,253
<b>Total equity</b>		<b>23,629</b>	<b>32,955</b>

The financial statements on pages 10 to 30 were authorised for issue by the board of directors on 29 September 2014 and were signed on its behalf.



E Sohlberg  
Managing Director  
Perstorp UK LTD

Company Registered Number: 2715398

The annexed notes on pages 13 to 30 form part of these financial statements.

## Statement of changes in equity

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2013	29,702	3,253	32,955
Loss for the financial year and total comprehensive income	-	(9,327)	(9,327)
<b>At 31 December 2013</b>	<b>29,702</b>	<b>(6,074)</b>	<b>23,628</b>

Cash flow statement  
for the year ended 31 December

	Note	2013 £'000	2012 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	12,113	13,893
Interest paid		(8,867)	(5,091)
Income tax paid		-	-
Net cash generated from operating activities		3,246	8,802
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(3,635)	(2,480)
Interest received		6	28
Net cash used in investing activities		(3,629)	(2,452)
<b>Cash flows from financing activities</b>			
Proceeds from loan borrowings net of capitalised borrowing costs		26,000	71,929
Repayments of loan borrowings		(27,213)	(75,553)
Net cash used in financing activities		(1,213)	(3,624)
<b>Net increase in cash and cash equivalents</b>		<b>(1,596)</b>	<b>2,726</b>
Cash and cash equivalents at beginning of the year		11,639	9,326
Exchange losses on cash and cash equivalents		(261)	(413)
<b>Cash and cash equivalents at end of the year</b>	25	<b>9,782</b>	<b>11,639</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

Perstorp UK LTD is incorporated and domiciled in the United Kingdom, and is registered in England and Wales. The company's registered address is Perstorp UK LTD, Baronet Road, Warrington, Cheshire WA4 6HA, UK.

### **1 Statement of accounting policies**

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

#### **1.1 Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS.

The Directors have a reasonable expectation that the company can meet its day to day working capital requirements and has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis under the historical cost convention, in preparing its financial statements.

The preparation of financial statements in conformity with IFRSs requires the use of a number of important accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2. Standards (IAS / IFRS), changes and interpretations (IFRIC) now in effect that are applicable for the 2013 financial year and are applied by the company.

The Directors are confident that the company will continue as a going concern, due to forecasts of increasing sales volumes, sourcing and efficiency improvements. The current borrowings (note 17) are on a rolling facility and will be extended if necessary or repayments deferred if the company is not in a position to repay such amounts.

#### **1.2 Recent accounting developments**

##### **(a) New and amended standards adopted by the company**

The following standards have been adopted by the company for the first time for the financial year beginning on 1st January 2013 and do not have a material impact on the company:

##### **IAS 1, 'Financial statement presentation'**

The amendments to this standard are regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

##### **IAS 19, 'Employee benefit'**

This standard was revised in June 2011. The changes on the company's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. There has been no impact of this change on the Company as it does not operate a defined benefit pension scheme.

##### **IFRS 13, 'Fair value measurement'**

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

##### **(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.**

The following standards have been published and are mandatory for accounting periods beginning after 1st January 2014 but have not been early adopted by the company:

##### **IAS 36, 'Impairment of assets'**

The amendments to this standard are on the recoverable amount disclosures for non-financial assets. This amendment removes certain disclosures of the recoverable amounts of CGUs which had been included in IAS 36 by the issue of IFRS 13.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1.2 (b) Recent accounting developments (continued)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the company.

### 1.3 Segment reporting

To a great extent, the specialty chemicals operations are integrated both horizontally and vertically. Virtually all products sold to customers at this level are far removed from the end customers in the form of automakers, coatings producers and so forth. The same product can often be used for a wide spectrum of different applications. Accordingly there is no natural reason to divide the specialty chemicals operations into different segments.

The chief operating decision maker, defined as the Directors, make decisions based on the underlying management data, which is the data presented in the statutory accounts. The Directors consider the operations of the entity to represent one trading segment and therefore a segmental analysis has not been disclosed.

### 1.4 Intangible assets

Goodwill comprises the amount by which the acquisition value exceeds the fair value at the date of acquisition of the identifiable net assets acquired. Goodwill is reported as an intangible asset. Goodwill is tested annually in order to identify impairment requirements. Impairment of goodwill is not recovered.

A fair value for customer relations has been established in connection with the acquisition of the Solvay Caprolactones business in January 2008.

A fair value for the non-compete agreement has been established in connection with the acquisition of the Solvay Caprolactones business in January 2008.

The costs of the REACH registration of the company's products have been identified as an intangible asset and capitalised accordingly (see note 11).

Intangible assets (excluding goodwill) are reported at their acquisition value less accumulated amortisation. The acquisition value is linearly amortised in order to divide the cost over the life span of the intangible asset which have been determined to be:

Customer relations	9-11 years
Non-compete agreement	6 years
REACH costs	20 years

Assets with an indeterminate useful life, such as goodwill, are not depreciated or amortised but are subject to annual testing of impairment requirements. Assets with a determined useful life are assessed for a reduction in value whenever events or changes in conditions indicate that the book value may not be recoverable. Impairment is recognised in the amount by which the asset's book value exceeds its recoverable value and it will be immediately reported as a cost. Impairment is never recovered for goodwill.

### 1.5 Property, plant and equipment

Property, plant and equipment is reported at cost less accumulated depreciation. The cost includes expenses that are directly attributable to the acquisition of the asset. Additional costs are added to the asset's reported value or are reported as a separate asset, depending upon which is appropriate, but only if it is probable that the future economic benefits associated with the asset accrue to the company and the cost can be measured reliably. All other forms of expenses for repair and maintenance are reported as costs in the income statement during the period they arise.

Borrowing costs attributable to acquisitions of fixed assets that take a significant amount of time to complete are capitalised for any such acquisitions that have commenced since 1 January 2009.

Straight line depreciation is applied based on the asset's acquisition value and estimated useful life. The following depreciation periods are used:

Buildings	20-50 years
Plant and equipment	5-20 years
Land is not depreciated	

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1.5 Property, plant and equipment (continued)**

The residual value and useful life of assets are reviewed and adjusted if appropriate at each balance sheet date. Assets are impairment tested when external or internal circumstances dictate such impairment testing, and are adjusted as necessary. An asset's book value is immediately impaired to its recoverable amount if the asset's book value exceeds its estimated recoverable amount.

Gains and losses on divestment are determined by comparing the sales proceeds and the book value and are reported in the income statement under the headings of other operating income or other operating expenses.

**1.6 Inventories**

Raw materials, supplies and goods purchased for resale are valued at purchase cost. Finished goods are valued at the cost of production. The cost of production comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and write-downs of assets used for production. It includes the share of expenses for company pension plans and discretionary employee benefits that are attributable to production. Administrative costs are included where they are attributable to production. Inventories are valued using the weighted-average cost method. Costs and overheads allocated are based on normal operating activity.

If the purchase or production cost is higher than the net realisable value, inventories are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**1.7 Taxation**

Reported taxes in the income statement include current tax, adjustment of prior year current tax and changes in deferred tax. The calculation of tax and the assessment of all current and deferred tax liabilities and receivables are made in accordance with the UK tax regulations and tax rates that have been decided or that with a great deal of certainty will be determined and apply when the tax is to be paid.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax assets are only reported when it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**1.8 Foreign currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Sterling (£'000s) which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1.9 Revenue recognition**

Revenue from the sales of goods is reported in accordance with sales terms and thereby in the period when all significant risks and benefits attributable to the goods are transferred to the purchaser in accordance with the sales agreement.

Reported revenue is the fair value of what has been received or will be received for sold goods and services within the company's business with deductions for VAT, discounts and returns. Revenue per category is reported as follows:

- Sales of goods are reported upon delivery to the customer in accordance with sales terms and thereby in the period when all significant risks and benefits attributable to the goods are transferred to the purchaser in accordance with the agreement, and
- Commissions due from related parties and sales of services to related parties are recognised on an accruals basis in accordance with the substance of the relevant agreements.

**1.10 Leased assets**

Assets held under finance leases where substantially all the benefits and risks of ownership are transferred to the company, are capitalised as property, plant and equipment in the balance sheet and are depreciated over the useful economic life of the asset or the term of the lease, whichever is shorter. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals in respect of operating leases, under which substantially all the benefits and risks of ownership remain with the lessors, are charged to the profit and loss account on a straight line basis over the period of the lease.

**1.11 Pension costs**

The company has defined-contribution pension plans. The characteristic of a defined-contribution pension plan is that the company pays a fixed contribution to a separate legal entity. After the premium is paid the company has no other legal or informal obligations to pay additional amounts. Therefore there are no provisions or contingent liabilities in the balance sheet for the pension plans.

**1.12 Remuneration for redundancy**

Remuneration is paid for redundancy when an employee's employment is terminated before normal retirement or when the employee accepts voluntary redundancy.

**1.13 Trade receivables**

Trade receivables are reported at fair value. Trade receivables are normally reported at their original fair value when the effect of discounting is considered to be marginal. When an assessment is made by the company that a receivable will not be paid then a provision is made. The size of the provision is calculated as the difference between the asset's reported value and the estimated future cash flows. The effect of a reported loss and possible recovery amount of previously written down receivables is returned to the income statement.

**1.14 Trade payables**

Trade payables are reported at fair value.

**1.15 Borrowings**

Borrowings are reported at fair value, net of transactions costs. Borrowing expenses are reported in the income statement based upon the period to which they relate, including borrowing costs. Borrowings are classified as interest-bearing long-term or short-term liabilities in the balance sheets depending upon the due date. Borrowing costs are not capitalised.

**1.16 Share capital**

Ordinary share capital is treated as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1.17 Fair value estimation**

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. Due to the specialised nature of the property plant and equipment of the company there is no means of ascertaining a market value for these assets and therefore the fair value as at the date of purchase of the business has been calculated on a depreciated replacement cost basis. When a financial instrument is traded on active markets the fair value of that financial instrument is based on listed market prices on the closing date of the financial statements. The current external borrowings of the company are not subject to organised trading and therefore an objective market assessment is not possible.

**1.18 Cash and cash equivalents**

Cash and cash equivalents include cash and bank balances and other short-term investments maturing within three months and that can easily be converted into cash.

**2 Significant estimates and judgements made for accounting purposes**

To an extent, the financial statements are based on estimates and judgements about the future trend. In turn, these judgements are based on historical experience and different assumptions that are considered to be reasonable in current circumstances. Reported values may have another actual outcome if other assumptions are made or circumstances change.

The following particular areas can be distinguished where estimates and judgements are of importance to the amounts entered in the financial statements and changes can have a significant effect on the company's earnings and financial position.

**Impairment testing of goodwill:** Impairment testing is currently performed annually through analysis of the recovery value for the company which is viewed in whole as one cash-generating unit. The calculation is based on an estimate of future cash flow, in accordance with financial five-year plans that have been approved by management. A number of important assumptions are used in this analysis and they are disclosed in note 11.

**Market value of assets acquired:** The company performed a fair value calculation of the property, plant and equipment that were acquired with the purchase of the activities of the Solvay Caprolactones business. The valuation was performed on a depreciated replacement cost basis as is appropriate for the chemicals industry and the valuation contained a number of estimates and judgements regarding the current replacement cost of the plant and equipment and the remaining useful life of that plant and equipment.

**Valuation of tax-loss carry-forwards:** The valuation of tax-loss carry-forwards in the company is based on an assessment that it will be possible to utilise these carry-forwards in the foreseeable future based upon the future anticipated earnings capability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Risk Management

3.1 Financial Risk

The company faces a number of financial risk factors, currency risk, financing risk, liquidity risk, interest rate risk and counter-party risk. The financial risks for the company are managed within a group-wide financial risk framework.

3.1.1 Currency risk

The currency risk is the risk that the company's earnings and net assets will be adversely affected by fluctuations in exchange rates. Within the Perstorp group currency risk is managed on a group-wide basis and the group manages its currency risk by concentrating borrowing to the USD and EUR currencies as these are the two significant currencies for flows of earnings for the group.

Sensitivity of 2014 forecast operating profit to 1% increase in the strength of Sterling:	Loss of Operating profit £'000
USD cash flows	290
EUR cash flows	44
YEN cash flows	30

3.1.2 Financing risk

Financing risk refers to the risk that refinancing of due loans becomes more difficult or expensive, due to changing market conditions. The Group's principal financing consists of corporate bonds listed on the Luxembourg Stock Exchange Euro MTF Market since November 2012, a mezzanine facility syndicated at the start of 2006 with over 20 financiers, and a Revolving Credit Facility initiated in November 2012.

3.1.3 Liquidity risk

Liquidity risk is managed by checking that the company has sufficient liquid funds as part of the group's agreed credit facilities. Both company and group management closely monitor liquidity forecasts. The table below analyses the financial instruments of the company by the time remaining from the balance sheet date up to the agreed due date:

Maturity analysis for financial instruments:	0-1 yrs £'000	1-2 yrs £'000	2-5yrs £'000
Borrowings from related parties	26,000	-	71,376
Trade payables	9,480	-	-

The borrowings from related parties of £26,000k, is on a one month rolling facility basis and can be rolled over for a period exceeding one year if necessary.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3.1.4 Interest rate risk

The interest rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings. The table below shows the sensitivity of earnings to an increase in the interest rate:

Sensitivity to 1% increase in the interest rate	Additional Interest cost £'000
Interest payable on loans denominated in USD	487
Interest payable on loans denominated in EUR	271
Interest payable on loans denominated in GBP	260

### 3.1.5 Counterparty risk

Counterparty risk relates to the credit risk that might arise when a counterparty cannot fulfil its commitments and thus causes a financial loss to the company. The company has a set credit control policy, the main purpose of which is to prevent credit risks and minimise bad debt losses. The credit policy sets a framework for how to approve credit, who has responsibility and how deliveries may be approved in the event of a limit being exceeded or of a customer having credit that falls due for payment. Internal guidelines also include procedures for monitoring outstanding receivables before and after the maturity date depending upon materiality and the individual customer's risk profile.

## 3.2 Operational risk

### 3.2.1 Access to raw materials

To secure delivery of raw materials and spread the risks the company operates a purchasing policy which requires that procurement of the most critical raw materials is made from several suppliers where possible. Procurement is secured through long-term delivery agreements. The company operates in the global chemicals market with suppliers who meet the highest environmental and safety requirements, but as far as possible the company aims to minimise transport by buying in local markets.

### 3.2.2 Production disruptions

Disruptions in the company's plants can result in a loss of income, in the short term because the company cannot deliver expected volumes to customers and in the long term because it may lead to alternative products being used for the same application. Regular technical inspections are made of equipment to reduce the risk of a disruption and regular maintenance programmes are performed to reduce the risk of equipment deteriorating beyond use. Through the group function the company ensures that it has comprehensive insurance coverage in case of an unforeseen event.

## 3.3 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Revenue

	2013 £'000	2012 £'000
Sales divided by type:		
Net external sales of goods	54,788	54,517
Sales of goods to related parties	22,916	22,077
Total revenue	77,704	76,594

5 Loss before income tax

	2013 £'000	2012 £'000
<b>Loss before income tax is stated after charging:</b>		
Depreciation of owned property plant and equipment	5,291	5,496
Staff costs (note 19)	5,178	5,026
Amortisation of intangible assets (included within distribution costs, note 11)	6,065	6,060
Auditors' remuneration for audit services – UK	31	30
Operating lease rentals:		
Land and buildings	146	146
Plant and machinery	52	57

6 Other operating expenses

	2013 £'000	2012 £'000
Foreign exchange losses on operational transactions	(712)	(823)
	(712)	(823)

7 Finance income

	2013 £'000	2012 £'000
Gains on translation of foreign currency denominated loans	462	2,773
Bank interest receivable	6	28
	468	2,801

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Finance costs

	2013 £'000	2012 £'000
Interest on bank borrowings	(1,139)	(2,947)
Interest on loans from related parties	(7,718)	(2,286)
Amortisation of capitalised financing costs	-	(2,675)
Commission payable on foreign exchange contracts and deferral fees	(1)	(49)
Other interest payable	-	(1)
	<b>(8,858)</b>	<b>(7,958)</b>

9 Income tax credit

Analysis of credit for the year all relating to continuing operations	2013 £'000	2012 £'000
<b>Current tax</b>		
Current tax on profits for the year	-	-
<b>Deferred income tax (note 12)</b>		
Current year	200	(680)
Prior year adjustment	(32)	(456)
Change in Corporation tax rate applicable to deferred tax	(42)	(31)
<b>Income tax charge / (credit)</b>	<b>126</b>	<b>(1,167)</b>

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (23.25%) (2012: 24.5%). The differences are explained below:

	2013 £'000	2012 £'000
<b>Loss before income tax</b>	<b>(9,201)</b>	<b>(2,737)</b>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(2,139)	(671)
<b>Effects of:</b>		
Non-deductible expenses	1	5
Losses not recognised	2,075	-
Enhanced Research and Development tax credit	(42)	-
Capital expenditure deferred for capital allowances	-	(1)
Prior year adjustment	(32)	(456)
Difference between the tax rate in the period and the year end and prior year end deferred tax rate	263	(44)
<b>Tax charge / (credit)</b>	<b>126</b>	<b>(1,167)</b>

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the UK main corporation tax rate to 20% from April 2015, which has been substantively enacted as at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10 Property, plant and equipment

	Land £'000	Buildings £'000	Plant and equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2012	1,187	2,500	82,160	85,847
Additions	-	-	2,334	2,334
At 31 December 2012	1,187	2,500	84,494	88,181
Additions		1,902	1,513	3,415
<b>At 31 December 2013</b>	<b>1,187</b>	<b>4,402</b>	<b>86,007</b>	<b>91,596</b>
<b>Accumulated depreciation</b>				
At 1 January 2012	-	812	11,566	12,378
Charge for the year	-	208	5,288	5,496
At 31 December 2012	-	1,020	16,854	17,874
Charge for the year	-	229	5,062	5,291
<b>At 31 December 2013</b>	<b>-</b>	<b>1,249</b>	<b>21,916</b>	<b>23,165</b>
<b>Net Book Value</b>				
At 1 January 2012	1,187	1,688	70,594	73,469
At 31 December 2012	1,187	1,480	67,640	70,307
<b>At 31 December 2013</b>	<b>1,187</b>	<b>3,153</b>	<b>64,091</b>	<b>68,431</b>

The cost of fixed assets above includes assets held under finance leases (within plant and equipment) amounting to £69k (2012: £Nil).

No borrowing costs have been capitalised on additions in 2013 and 2012.

Depreciation has been charged in the income statement as follows:

	2013 £'000	2012 £'000
Cost of goods sold	5,291	5,496
	<b>5,291</b>	<b>5,496</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Intangible assets

	Goodwill £'000	Customer relations £'000	Non-compete agreement £'000	REACH costs £'000	Total £'000
<b>Cost</b>					
At 1 January 2012	26,186	25,551	22,189	153	74,079
Additions	-	-	-	69	69
At 31 December 2012	26,186	25,551	22,189	222	74,148
Additions	-	-	-	119	119
<b>At 31 December 2013</b>	<b>26,186</b>	<b>25,551</b>	<b>22,189</b>	<b>341</b>	<b>74,267</b>
<b>Accumulated amortisation</b>					
At 1 January 2012	-	9,222	14,485	2	23,709
Charge for the year	-	2,354	3,698	8	6,060
At 31 December 2012	-	11,576	18,183	10	29,769
Charge for the year	-	2,355	3,698	12	6,065
<b>At 31 December 2013</b>	<b>-</b>	<b>13,931</b>	<b>21,881</b>	<b>22</b>	<b>35,834</b>
<b>Net book value</b>					
At 1 January 2012	26,186	16,329	7,704	151	50,370
At 31 December 2012	26,186	13,975	4,006	212	44,379
<b>At 31 December 2013</b>	<b>26,186</b>	<b>11,620</b>	<b>308</b>	<b>319</b>	<b>38,433</b>

The cost of amortisation of Intangible assets for the year of £6,065k (2012: £6,060k) has been included within selling and distribution costs in the income statement.

Following the acquisition of the Solvay Caprolactones business in January 2008, a fair value was established for both the customer relations of the Caprolactones business and a non-compete agreement with the Solvay group. Both of these intangible assets are amortised on a straight-line basis over a period of 9-11 years for customer relations and 6 years for the non-compete agreement.

During the year the company has capitalised costs of £119k (2012: £69k) directly related to the REACH registration of the company's products. REACH stands for Registration Evaluation Authorization and Restriction of Chemicals. All substances that are used within the EU must be registered and evaluated from toxicological and eco- toxicological standpoints. The costs are being amortised over a 20 year period which has been decided taking into account the technological and commercial life cycles of the chemical substance and the related products of the company.

Management considers that the company as a whole should be regarded as a cash-generating unit as it has only one manufacturing site and produces only one category of product, caprolactones. This is consistent with the group financial statements which view caprolactones as one cash-generating unit.

The recoverable amount for the cash-generating unit has been established on the basis of a calculation of value in use. The calculation is based on an estimate of future cash flow, in accordance with financial five-year plans that have been approved by management. Cash flows beyond this five-year period are extrapolated using an estimated growth rate of 2%. The discount rate used for the calculation is 11% after tax. The sensitivity analysis did not produce an impairment requirement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property plant and equipment	-	-	(6,193)	(6,591)
Intangibles	-	-	(1,257)	(1,205)
Losses	6,974	7,446	-	-
	6,974	7,446	(7,450)	(7,796)

Movement in deferred tax during the year

	1 January 2013 £'000	Recognised in income £'000	31 December 2013 £'000
Property plant and equipment	(6,591)	398	(6,193)
Intangibles	(1,205)	(52)	(1,257)
Losses	7,446	(472)	6,974
	(350)	(126)	(476)

Movement in deferred tax during the previous year

	1 January 2012 £'000	Recognised in income £'000	31 December 2012 £'000
Property plant and equipment	(6,193)	(398)	(6,591)
Intangibles	(1,048)	(157)	(1,205)
Losses	5,724	1,722	7,446
	(1,517)	1,167	(350)

The value of unutilised tax loss carry forwards is capitalised where it is expected that the carry forwards will be utilised in the foreseeable future due to taxable profits being earned.

13 Inventories

	2013 £'000	2012 £'000
Raw materials and consumables	2,078	2,437
Finished goods and goods for resale	6,071	7,206
Less: provision for impairment of inventories	(359)	(767)
At 31 December	7,790	8,876

The amount of inventories included in cost of sales amounted to £40,205k (2012: £37,943k). The movement on the inventory impairment reserve during the year impacts upon the earnings for the year in the income statement.

14 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	6,815	8,024
Less: provision for impairment of trade receivables	(79)	(110)
Trade receivables – net	6,736	7,914
Prepayments	119	105
Receivables from related parties	2,307	2,983
Other receivables	718	764
At 31 December	9,880	11,766

The receivables from related parties are unsecured, interest free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Trade and other receivables (continued)

Analysis of trade receivables	2013 £'000	2012 £'000
Not due receivables	6,110	7,605
Due receivables:		
1-10 days	565	349
11-30 days	19	63
31-60 days	121	-
61-90 days	-	-
91-180 days	-	2
Over 180 days	-	5
Total trade receivables	6,815	8,024

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The company does not hold any collateral as security.

The fair values of trade and other receivables do not differ from the values shown above.

15 Trade and other payables

	2013 £'000	2012 £'000
Trade payables	9,480	10,737
Amounts due to related parties	1,640	1,843
Other tax and social security	107	134
Accrued expenses	588	664
Balance at 31 December	11,815	13,378

The fair values of trade and other payables do not differ from the values shown above.

The amounts due to related parties are unsecured, interest free and are payable on demand.

16 Obligations under finance leases

Obligations under finance leases are as follows.

	2013 £'000	2012 £'000
Gross obligations under finance leases	59	-
Less future finance charges	-	-
Present value of lease obligations	59	-

Net obligations under finance leases fall due as follows

	2013 £'000	2012 £'000
Within one year	12	-
Within two to five years	47	-
After five years	-	-
Present value of lease obligations	59	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Borrowings

	2013 £'000	2012 £'000
<b>Current borrowings:</b>		
Borrowings from related parties	26,000	27,213
Accrued interest due to related parties	962	972
Balance as at 31 December	26,962	28,185
<b>Non-current borrowings:</b>		
Borrowings from related parties	71,376	72,099
Balance as at 31 December	71,376	72,099
<b>Total borrowings</b>	<b>98,338</b>	<b>100,284</b>

The total assets of the company have been pledged as security for the loans in addition to other pledged assets within the group.

In connection with the acquisition of the caprolactones business from Solvay the existing loan facilities of the group were re-negotiated and increased.

There have been no defaults during the year of principal, interest or redemption terms of the loans payable.

The current borrowings are on a rolling facility and will be extended if necessary.

<b>Maturity structure of non-current borrowings:</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Between 1-2 years	-	-
Between 3-5 years	71,376	72,099
Balance as at 31 December	71,376	72,099

<b>Currency composition and interest rates of borrowings:</b>	<b>Amount in currency '000s</b>	<b>Sterling equivalent £'000</b>	<b>Effective interest rate (%)</b>
<b>Bank borrowings:</b>			
Loans denominated in USD	-	-	-
Loans denominated in EUR	-	-	-
<b>Borrowings from related parties:</b>			
Loan denominated in EUR owed to ultimate parent company	31,182	25,983	9.84%
Loan denominated in USD owed to ultimate parent company	74,857	45,393	9.84%
		71,376	

The loans of the company are arranged within the group facility on market terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Ordinary shares

	2013		2012	
	Number '000	£'000	Number '000	£'000
<b>Authorised:</b>				
Ordinary shares of £1 each	10	10	10	10
Ordinary A shares of € 1 each	40,000	29,692	40,000	29,692
		29,702		29,702
<b>Allotted, called up and fully paid:</b>				
Ordinary shares of £1 each	10	10	10	10
Ordinary A shares of € 1 each	40,000	29,692	40,000	29,692
		29,702		29,702

The ordinary A €1 shares have the same rights and are subject to the same restrictions as the ordinary £1 shares and they rank pari passu in all respects.

19 Employee costs and directors' remuneration

	2013 £'000	2012 £'000
<b>Staff costs (including directors' remuneration) for the company during the year were as follows:</b>		
Wages and salaries	4,017	3,894
Social security costs	438	465
Other pension costs (note 20)	723	667
	5,178	5,026

<b>Average monthly number of people (including executive directors) employed by the company during the year:</b>	2013 Number	2012 number
Administration	29	27
Manual	59	59
	88	86

**Key management compensation**

Key management includes directors (executive and non-executive). The compensation paid (or payable) for employee services is shown below:

	2013 £'000	2012 £'000
Short-term employee benefits	241	297
Post-employment benefits	19	18
	260	315

Retirement benefits are accruing under the money purchase pension scheme in respect of qualifying services for one director (2012: one).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Employee costs and directors' remuneration (continued)

The compensation paid (or payable) for employee services to the highest paid director is shown below:

	2013 £'000	2012 £'000
Short-term employee benefits	150	94
Post-employment benefits	-	18
	150	112

20 Pension commitments

The net pension cost is allocated within the income statement as follows:

	2013 £'000	2012 £'000
Cost of goods sold	554	470
Selling and marketing costs	144	180
Administration costs	25	17
	723	667

21 Operating leases

The company has lease agreements in respect of properties, vehicles, and plant and equipment, for which the payments extend over a number of years as detailed below:

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013		2012	
	Land and buildings £'000	Vehicles, plant and equipment £'000	Land and buildings £'000	Vehicles, plant and equipment £'000
Within one year	183	43	110	42
Within two to five years	285	87	393	41
After five years	15	6	95	-
	483	136	598	83

22 Related party transactions

The largest group of which Perstorp UK Limited is a member is that headed by Perstorp Holding AB which is 100% owned by Luxembourg based Financiere Foret S.A.R.L.

Remuneration to the company's board of directors is reported in note 19.

Goods are sold to related parties on terms that would be available to third parties. Sales of services are made on a cost plus basis for sales, marketing and administration services.

Goods are purchased from related parties on terms that would be available to third parties. Royalties are incurred on patents and trademarks owned by the immediate holding company and they are charged at a market rate. Services are purchased from related parties on a cost plus basis. Management, sales, marketing, legal, technical and administration services are purchased.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Related party transactions (continued)

The following balances were held with related parties at the end of the year:

	2013 £'000	2012 £'000
<b>Receivables from related parties:</b>		
Fellow subsidiary company	2,283	2,961
Immediate parent company	24	22
	<b>2,307</b>	<b>2,983</b>
<b>Payables to related parties:</b>		
Fellow subsidiary company	136	195
Immediate parent company	1,481	1,648
Ultimate parent company	23	-
	<b>1,640</b>	<b>1,843</b>

In addition to the above balances, there are borrowings from related parties which are disclosed in note 17.

The following transactions were carried out with related parties during the year:

	2013 £'000	2012 £'000
<b>Sales of goods:</b>		
Fellow subsidiary company	22,916	22,077
	<b>22,916</b>	<b>22,077</b>
<b>Commissions receivable:</b>		
Fellow subsidiary company	-	-
	<b>-</b>	<b>-</b>
<b>Sales of services:</b>		
Fellow subsidiary company	297	164
Immediate parent company	278	297
	<b>575</b>	<b>461</b>

	2013 £'000	2012 £'000
<b>Purchase of goods:</b>		
Fellow subsidiary company	1,008	975
	<b>1,008</b>	<b>975</b>
<b>Purchase of services:</b>		
Fellow subsidiary company	1,093	1,053
Immediate parent company	3,856	2,993
Ultimate parent company	231	235
	<b>5,180</b>	<b>4,281</b>
<b>Royalties payable:</b>		
Immediate parent company	6,339	6,298
	<b>6,339</b>	<b>6,298</b>
<b>Interest payable:</b>		
Fellow subsidiary company	7,609	926
Ultimate parent company	109	1,360
	<b>7,718</b>	<b>2,286</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Ultimate parent company

The company is a wholly owned subsidiary undertaking of Perstorp AB, incorporated in Sweden. The largest and smallest group of which Perstorp UK LTD is a member is that headed by Perstorp Holding AB, which is the ultimate parent company. Perstorp Holding AB is incorporated in Sweden and is controlled by the French private equity firm, PAI Partners, which owns close to 100% of the shares in Luxembourg based Financiere Foret S.A.R.L, which in turn owns 100% of the shares in Perstorp Holding AB. PAI Partners, which is an unincorporated partnership, is considered by the directors to be the ultimate controlling company.

The consolidated financial statements of the group are available to the public and may be obtained from Perstorp Holding AB, Perstorp S-284 80, Sweden or from the group website [www.perstorp.com](http://www.perstorp.com).

24 Reconciliation of profit to net cash flow from operations

	2013 £'000	2012 £'000
Loss for the year before tax	(9,201)	(2,737)
<b>Adjustments for:</b>		
Depreciation	5,291	5,496
Amortisation of intangible assets	6,065	6,060
Decrease / (increase) in inventories	1,086	(2,572)
Decrease in trade and other receivables	1,886	846
(Decrease) / Increase in trade and other payables	(1,404)	1,643
Finance income	(468)	(2,801)
Finance costs	8,858	7,958
Cash generated from operations	12,113	13,893

25 Cash and cash equivalents

	2013 £'000	2012 £'000
Deposit accounts	9,782	11,639
Total cash and cash equivalents	9,782	11,639