

**INGEVITY UK LTD.
(formerly Perstorp UK Ltd.)**

**Annual Report and Financial Statements
for the year ended 31 December 2018**



Company Registered Number: 2715398

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INGEVITY UK LTD.

DIRECTORS AND ADVISERS

Directors

D Turner - Resigned 13 February 2019
P Shelley
O M Lanner - Resigned 17 January 2019
W Hamilton - Appointed 13 February 2019

Bankers

Nordea Bank AB
London Branch
8th Floor, City Place House
55 Basinghall St
London
EC2V 5NB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Hardman Square
Manchester
M3 3EB

Registered Office

Ingevity UK Ltd.
Baronet Road
Warrington
Cheshire
WA4 6HA

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their Strategic Report for the year ended 31 December 2018.

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 Ingevity 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. In 2018, the business is continuing

In February 2019 Perstorp AB sold its Capa® business to Ingevity Corporation of North Charleston, SC. The sale was in the form of a share purchase and as such the UK legal entity continues to trade, albeit under new ownership and a different name (Ingevity UK Ltd). New ownership by a specialist chemical company strengthens the viability of the business, particularly in terms of financial support and future capital investment.

TRADING RESULTS AND DIVIDEND

The operating profit for the year was £27,968k (2017: profit £20,860k). The improvement in operating profit was driven by increased sales volumes, a consequence of a strengthening presence in the world market and reduced competition. The profit for the year of £12,254k (2017: £13,680k) was influenced by a strong Operating Profit due partially by volume increase, but offset by increased finance costs, due to revaluation of foreign currency loans, and also increased taxation charge.

The balance sheet has net assets at 31 December 2018 of £40,259k (2017: £28,005k). The balance sheet position has strengthened due to further profitability.

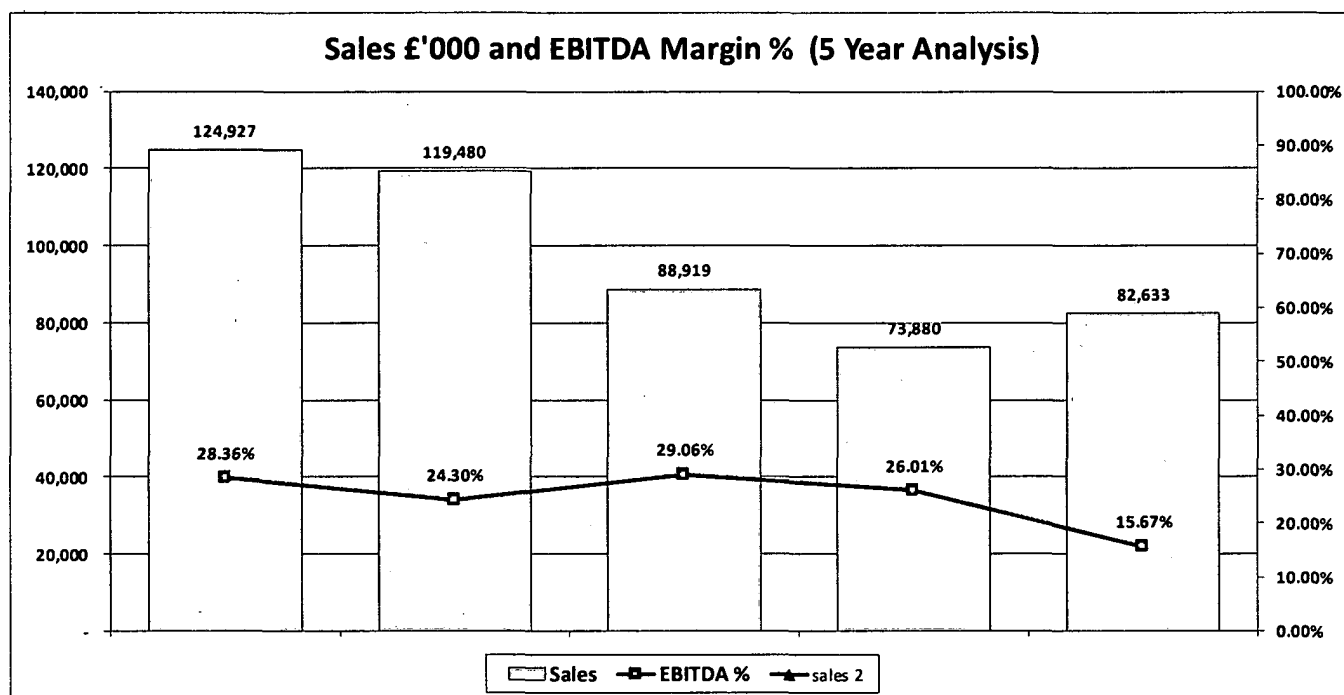
The directors do not recommend payment of a dividend for the year (2017: £nil).

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, as a percentage of Sales.

	Note 4	Income Statement	Note 7	Note 8	Note 9	Note 5		
	Sales Revenue £'000	Profit for the year £'000	Finance Income £'000	Finance Costs £'000	Current & Deferred Tax £'000	Depreciation & Amortisation £'000	EBITDA £'000	EBITDA %
2018	124,927	12,254	(402)	13,914	2,202	7,461	35,429	28.36%
2017	119,480	13,680	(4,485)	10,659	1,006	8,179	29,039	24.30%
2016	88,919	(4,712)	(2,727)	26,288	(903)	7,897	25,843	29.06%
2015	73,880	(328)	(938)	12,794	(198)	7,884	19,214	26.01%
2014	82,633	(4,263)	(13)	9,834	(797)	8,191	12,952	15.67%

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)



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.

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. This opportunity will be possible by the introduction of new products, and the growth into new markets, using our existing product range.

The change in ownership of the business presents new opportunities for further growth as Ingevity have already started to invest in the business for continued growth.

The current production capacity at the site is being maintained and improved. Significant capital investment is underway that will enable the company to position itself well to fulfil its strategic plan and with investment authorised for a new research facility, the business is well placed to maintain its strong market presence.

With regards to Brexit the business has invested significant working capital in securing strategic off-site storage locations for imported raw materials in the UK and has exported finished goods stocks to key locations in Europe in anticipation of any potential disruption at the ports post Brexit. The company is aware of the significant cost that may arise from the introduction of tariffs if there is a no deal Brexit and continues to review trading terms and pricing structures.

ON BEHALF OF THE BOARD

P Shelley
Managing Director
24 September 2019

Company Registered Number: 2715398

INGEVITY UK LTD.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

Ingevity UK Ltd. is a UK incorporated entity based in Warrington, England and was acquired by Ingevity Corporation, based in Charleston SC, USA on 13th February 2019. The change of name Ingevity UK Ltd was registered with Companies House on February 22nd 2019. The registered office of the company is shown on page 2. The immediate parent of the company is Ingevity Corporation.

PRINCIPAL ACTIVITIES

The principal activity of the company is the manufacture and selling of chemicals and polymers.

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

Given the increased current and forecasted profitability of the company the directors are confident that the company will continue as a going concern. The directors have received continuing support from the parent company that they will provide sufficient financial support to enable Ingevity UK Ltd, in the normal course of its business, to discharge its liabilities as they fall due.

RISK MANAGEMENT

The Company's activities expose it to a number of risks that could impact strategy, compliance, operations, reputation and finance. Comprehensive policies are in place, which are regularly reviewed, to ensure such threats are minimised. Liquidity is maintained by ensuring that sufficient funds are available for ongoing operations and future developments by use of intercompany funding.

The Company's principal financial assets are trade and other receivables, with credit risk primarily attributable to its trade receivables. Where appropriate the company would make an impairment where there is an identified loss and reduce the net receivables in the balance sheet but this was not necessary for 2018 (2017: Nil). The company has no significant concentration of credit risk with exposure spread over a large number of counterparties and customers.

Further details of risk management, including financial risk management, appear in Note 3 to the accompanying financial statements.

DIVIDENDS

No dividends were paid or recommended during the year (2017: Nil).

MISSION, VISION, VALUES AND STRATEGY

The Ingevity corporation produces specialty chemicals, high-performance carbon materials and engineered polymers that purify, protect, and enhance the world around us. Through a team of talented and experienced people, Ingevity develops, manufactures, and brings to market products and processes that help customers solve complex problems. These products are used in a variety of demanding applications, including asphalt paving, oil exploration and production, agrochemicals, adhesives, lubricants, publication inks, coatings, elastomers, bio-plastics and automotive components that reduce gasoline vapor emissions. Headquartered in North Charleston, South Carolina, Ingevity operates from 25 locations around the world and employs approximately 1,750 people.

The main focus areas of Ingevity are as follows:

Safety and Sustainability

It strives for zero personal and process safety incidents. It continually seeks to protect human health, the environment and the communities in which it operates. It utilises resources in a responsible manner and encourages the responsible use and application of its products.

Customers

It strives to be its customers' technology partner of choice. It wants to anticipate their needs and exceed their expectations. The company creates the most value for itself when it creates value for its customers.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

People

The company's success requires a team-oriented culture that engages the diversity, knowledge, energy, talents and expertise of all individuals. It ensures all employees are treated and treat each other fairly and with respect; it seeks to develop skills and talents; and reward results.

Integrity and Ethical Behavior

Ingevity is honest, sincere and genuine. It does the right things at all times. It obeys the letter and spirit of the laws of the countries in which it does business.

Creativity and Innovation

The company is innately curious and open to new ideas. It is always willing to be bold and take informed risks, and views failure as an opportunity to learn.

Commitment to Excellence

Ingevity strives to perform at the highest levels. It works to continuously improve its operations, the business and its results. To this end, each employee is accountable for delivering on his or her commitments.

As part of the acquisition, a detailed plan was created to integrate the Caprolactone business into the Ingevity corporation in every respect. It is expected that this will be substantially complete by the end of 2019. Until then the business will continue to be supported by Perstorp AB in key areas through transitional services agreements.

POLITICAL DONATIONS

The company did not make any political donations during the financial year (2017: £Nil).

CHARITABLE DONATIONS

The company did not make any charitable donations during the financial year (2017: £Nil).

DIRECTORS

The directors who have held office during the period from 1 January 2018 to the date of signing this report:

D Turner	- Resigned 13 February 2019
P Shelley	
O M Lanner	- Resigned 17 January 2019
W Hamilton	- Appointed 13 February 2019

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 monthly average number of employees during the year was 85 (2017: 82) the number of employees at the end of the year was 88 (2017: 82). 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 Ingevity group produces a sustainability report that is available to the public and may be obtained from the Group website, www.ingevity.com/about/sustainability

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

RESEARCH & DEVELOPMENT

The company continues to invest in R&D to gain competitive advantage and is currently in the design process of a new onsite state of the art research centre

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 2018 were equivalent to 46.2 days (2017: 58.4 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

ON BEHALF OF THE BOARD

P Shelley
Managing Director
24 September 2019
Company Registered Number: 2715398



Independent auditors' report to the members of Ingevity UK Ltd.

Report on the audit of the financial statements

Opinion

In our opinion, Ingevity UK Ltd.'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2018; the Income statement, the Cash flow statement, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of Ingevity UK Ltd. (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

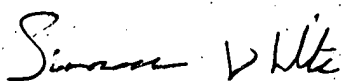
Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.



Simon White (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

24 September 2019

Income statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	4	124,927	119,480
Cost of sales		(73,955)	(74,861)
Gross profit		50,972	44,619
Distribution costs		(16,413)	(16,262)
Administration expenses		(6,848)	(6,453)
Other operating income/(expense)	6	257	(1,044)
Operating profit		27,968	20,860
Finance income	7	402	4,485
Finance costs	8	(13,914)	(10,659)
Profit before tax	5	14,456	14,686
Income tax charge - Current	9	(446)	(482)
Income tax charge - Deferred	9	(1,756)	(524)
Profit for the year		12,254	13,680

The notes on pages 13 to 31 are an integral part of these financial statements.

The company incurred no other comprehensive income in either year other than amounts included in the Income Statement above, and therefore no separate Statement of Comprehensive Income has been presented.

Balance sheet as at 31 December 2018

	Note	2018 £'000	Restated 2017 £'000
Assets			
Non-current assets			
Investments			
Shares in group companies		181	-
Tangible assets			
Property, plant, and equipment	10	59,092	54,694
Total Tangible assets		59,092	54,694
Intangible assets			
Goodwill	11	26,186	26,186
Customer relationships	11	181	2,361
REACH Cost	11	773	586
Total Intangible assets		27,140	29,133
Deferred income tax assets	12	3,722	4,678
Total non-current assets		90,135	88,505
Current assets			
Inventories	13	8,482	7,412
Trade and other receivables	14	49,031	37,357
Total current assets		57,513	44,769
Liabilities			
Current liabilities			
Trade and other payables	15	(13,663)	(16,623)
Obligations under finance leases	16	-	(12)
Borrowings	17	(1,376)	(1,342)
Total current liabilities		(15,039)	(17,977)
Net current assets		42,474	26,792
Non-current liabilities			
Borrowings	17	(87,410)	(83,153)
Deferred income tax liabilities	12	(4,940)	(4,139)
Total non-current liabilities		(92,350)	(87,292)
Net assets		40,259	28,005
Equity			
Share Capital	18	29,702	29,702
Retained Earnings/(Accumulated losses)		10,557	(1,697)
Total equity		40,259	28,005

The notes on page 13 to 31 are an integral part of these financial statements.

The financial statements on pages 10 to 31 were authorised for issue by the board of directors on 23 September 2019 and were signed on its behalf.



P Shelley
Managing Director, Ingevity UK Ltd.

Company Registered Number: 2715398

Statement of changes in equity for the year ended 31 December 2018

	Share Capital £'000	(Accumulated losses)/ retained earnings £'000	Total equity £'000
At 1 January 2017	29,702	(15,377)	14,325
Profit for the financial year, being total comprehensive income	-	13,680	13,680
At 31 December 2017	29,702	(1,697)	28,005
At 1 January 2018	29,702	(1,697)	28,005
Profit for the financial year, being total comprehensive income	-	12,254	12,254
At 31 December 2018	29,702	10,557	40,259

Cash flow statement
for the year ended 31 December 2018

	Note	2018 £'000	Restated 2017 £'000
Cash flows from operating activities			
Cash generated from operations	24	31,444	30,826
Interest paid		(9,623)	(10,086)
Income tax paid		(1,308)	-
Income tax received		38	41
Net cash generated from operating activities		20,551	20,781
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(9,865)	(6,354)
Shares in group companies		(182)	-
Interest received		148	35
Net cash (used in)/generated from investing activities		(9,899)	(6,319)
Cash flows from financing activities			
Increase/(decrease) in amounts owed from/to group Companies in relation to cash pooling arrangement		10,652	14,462
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year		-	-

NOTES TO THE FINANCIAL STATEMENTS

Ingevity UK Ltd. is a private limited company incorporated and domiciled in the United Kingdom and is registered in England and Wales. The company is limited by shares. The company's registered address is Ingevity UK Ltd., Baronet Road, Warrington, Cheshire, WA4 6HA, UK.

1 Statement of Significant 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.

Forecasts of increasing sales volumes, sourcing and efficiency improvements, improved funding along with a letter of financial support from Ingevity Corporation confirming that it will provide adequate financial support as required to enable the Company to continue to discharge its liabilities in the normal course of business. Therefore, these financial statements have been prepared on a going concern basis.

Restatement

During the preparation of financial information in connection with the acquisition of the company, management noted that in the UK statutory accounts, amounts that had been previously shown as cash and cash equivalents, (2017 £28.6m) should have been presented as amounts due from group undertakings (Note 14). The impact of this is that cash and cash equivalents as of 31 December 2017, are now £nil and trade and accounts receivables increased by £28.6m. In 2017 this also resulted in restated outflows of £14.5m amounts owed from/to group companies in relation to cash pooling arrangements, recognised within financing activities on the statement of cash flows. A third balance sheet has not been included as the transaction has no impact on net assets.

1.2 Recent accounting developments

(a) New standards amendments and interpretations to existing standards.

On 1 January 2018 the Company adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments – Recognition and Measurement'. The Group has not restated comparative information for prior periods.

- **Classification and Measurement:** There have been no changes to the classification or measurement of the Company's financial assets or liabilities.
- **Impairment:** From 1 January 2018 the Company implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on ageing profile. The adoption of the expected loss approach has resulted in an impairment provision of £19k.

On 1 January 2018 the Company adopted IFRS 15 'Revenue from Contracts with Customers' with no impact as our accounting policies were already in line with IFRS 15.

Revenue Recognition

Revenue from the sale of goods is recognised in the profit and loss account at the point of time of dispatch or at the point of sale, as appropriate, based on contractual terms. Revenue from services rendered is recognised over time by reference to the stage of completion of the transaction at the balance sheet date.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Statement of accounting policies (continued)

(b) New standards amendments and interpretations not yet adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

IFRS LEASE ACCOUNTING

IFRS 16, Leases: this standard is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The company has elected to apply the following practical expedients:

- In determining whether existing contracts meet the definition of a lease, the company will not reassess those contracts previously identified as leases and will not apply the standard to those contracts not previously identified as leases.
- Short-term leases (leases of less than 12 months and leases with less than 12 months remaining) as at the date of adoption of the new standard will not be within the scope of IFRS 16.
- Leases for which the asset is of low value (<£5k), are not within the scope of IFRS 16.

The Company has elected to apply the simplified transition approach with the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. As a consequence of this, there is likely to be a material impact on the Balance Sheet with a lease liability and a corresponding right of use asset to be recognised. There is anticipated to be a limited impact on the net assets of the Company at the date of adoption. Based on the current definition of EBITDA, there is likely to be an increase in the Company's EBITDA as operating lease costs are replaced by a depreciation charge. There will also be an additional interest charge, however, there will be no material effect on the overall Income Statement. The changes will not impact the overall cash flow of the group.

As at the reporting date, the Company has non-cancellable operating lease commitments of £1,319m, see note 21. Of these commitments, approximately £149k relate to short-term leases and £33k to low-value leases which will both be recognised on a straight-line basis over the remaining life of the leases as an expense in profit or loss. For the remaining lease commitments, the Company estimates that right-of-use assets of approximately £1.3 million will be recognised on 1 January 2019 and lease liabilities of approximately £1.3 million. The adoption of IFRS16 will increase EBITDA in 2019 by approximately £182k, most of which will be offset by increased depreciation and interest charges.

1.3 Segment reporting

The company's operations are fully integrated. All products are sold to customers at a level far removed from the end user via automakers, coatings producers and so forth. The same product can often be used for a wide spectrum of different applications.

The chief operating decision maker, defined as the directors, make decisions based on the underlying management data, which is the data presented in the financial statements. 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 not amortised but tested annually for impairment, or when there is a triggering event.

Other intangible assets were recognised at fair value as part of the acquisition by the Company of the Caprolactones business from Solvay in January 2008.

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

Customer relationships	9-11 years
Non-compete agreement	6 years
Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Registration	20 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Statement of accounting policies (continued)

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 an expense. 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.

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

Buildings	10-25 years
Plant and equipment	1-20 years
Land is not depreciated	

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 Income Tax

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Statement of accounting policies (continued)

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. Translation differences are recognised in profit or loss.

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 is recognised when the risks and rewards pass to the customer in accordance with the agreed sales terms. For the majority of sales the transfer of risks and rewards occurs when goods reach the nearest shipping port to the company.

1.10 Leases

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. At the commencement of the lease term, finance leased assets and liabilities are recognised at the higher of the present value of minimum lease payments or the fair value of the leased asset, both determined at the inception of the lease. 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

Under IFRS 9, effective from 1 January 2018, the Company elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that result from transactions that are within the scope of IFRS 15, irrespective of whether they contain a significant financing component or not.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows of the asset, discounted, where material, at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement. When a receivable is uncollectable, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement.

1.14 Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Statement of accounting policies (continued)

1.15 Borrowings

Borrowings are recognised initially at fair value, net of transactions costs, and subsequently at amortised cost using the effective interest method. 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.

1.17 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

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

2.1 Critical accounting estimates and assumptions

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

Impairment testing of goodwill: The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.4. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of estimates such as growth forecasted in revenue, the marginal contribution of sales, and discount rate. For further details, see note 11.

Valuation of deferred tax assets: The deferred tax assets are in relation to carry-forward tax losses. The Company has concluded that the deferred assets will be recoverable, using the estimated future taxable income based on the approved business plans and budgets.

No critical accounting judgements were made in respect of the 2018 financial statements.

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. The sensitivity of the company's operations to the significant currencies which impact its operations is set out below.

Sensitivity of 2019 forecast operating profit to 1% increase in the strength of Sterling:	2018 Loss of Operating profit £'000	2017 Loss of Operating profit £'000
USD cash flows	(580)	(657)
EUR cash flows	(275)	(116)
YEN cash flows	(50)	(84)

Sensitivity of 2019 forecast operating profit to 1% decrease in the strength of Sterling:	2018 Loss of Operating profit £'000	2017 Loss of Operating profit £'000
USD cash flows	580	657
EUR cash flows	275	116
YEN cash flows	50	84)

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: 2018	0-1 yrs £'000	1-2 yrs £'000	2-5yrs £'000
Borrowings from related parties	-	-	87,410
Trade payables	10,021	-	-

Maturity analysis for financial instruments: 2017	0-1 yrs £'000	1-2 yrs £'000	2-5yrs £'000
Borrowings from related parties	-	-	83,153
Amounts due to related parties	2,548	-	-
Finance Leases	12	-	-
Trade payables	11,574	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Risk Management (continued)

The borrowings from related parties is on a one month rolling facility basis and can be rolled over for a period exceeding one year if necessary

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	2018 Additional Interest cost £'000	2017 Additional Interest cost £'000
Interest payable on loans denominated in USD	592	555
Interest payable on loans denominated in EUR	282	277
Interest payable on loans denominated in GBP	-	-

Sensitivity to 1% decrease in the interest rate	2018 Additional Interest cost £'000	2017 Additional Interest cost £'000
Interest payable on loans denominated in USD	(592)	(555)
Interest payable on loans denominated in EUR	(282)	(277)
Interest payable on loans denominated in GBP	-	-

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

	2018 £'000	2017 £'000
Sales divided by geographical area:		
UK	9,303	9,241
Rest of Europe	53,406	49,302
Rest of World	62,218	60,937
Total revenue	124,927	119,480

5 Profit before tax

	2018 £'000	2017 £'000
Profit before income tax is stated after charging:		
Depreciation of owned property plant and equipment	5,244	5,954
Staff costs (note 19)	6,034	5,893
Amortisation of intangible assets (included within distribution costs, note 11)	2,217	2,225
Inventory recognised as an expense	58,548	59,305
Impairment of inventories	38	70
Auditors' remuneration for audit services – UK	36	34
Operating lease rentals:		
Land and buildings	110	110
Plant and machinery	111	99

6 Other operating income/(expense)

	2018 £'000	2017 £'000
Foreign exchange gain/(losses) on operational transactions	257	(1,044)
	257	(1,044)

7 Finance income

	2018 £'000	2017 £'000
Gains on translation of foreign currency denominated loans	-	4,450
Gains on translation of foreign currency bank accounts	253	-
Bank interest receivable	149	35
	402	4,485

8 Finance costs

	2018 £'000	2017 £'000
Interest on bank borrowings	(1)	(6)
Interest expense on current liabilities	(711)	(673)
Interest on loans from related parties	(8,931)	(9,400)
Losses on translation of foreign currency denominated loans	(4,257)	-
Losses on translation of foreign currency bank accounts	-	(570)
Bank charges	(14)	(10)
	(13,914)	(10,659)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Income tax charge

Analysis of charge for the year all relating to continuing operations	2018 £'000	2017 £'000
Current tax		
Corporation Tax charge	501	482
Adjustment in respect of prior periods	(55)	-
Current Tax	446	482
Deferred income tax (note 12)		
Current year	1,651	499
Adjustment in respect of prior periods	105	25
Change in corporation tax rate applicable to deferred tax	-	-
Deferred Tax	1,756	524
Income tax charge	2,202	1,006

The tax assessed for the year remains lower than the standard rate of corporation tax in the UK 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before income tax	14,456	14,686
Profit on ordinary activities before income tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	2,746	2,827
Effects of:		
Non-deductible expenses	-	14
Losses not recognised	-	10
Brought forward losses recognised	(380)	(1,804)
Fixed asset – ineligible cost difference	(20)	-
Adjustment in respect of prior periods	50	25
Difference between the tax rate in the period and the year end and prior year end deferred tax rate	(194)	(66)
Tax charge	2,202	1,006

Changes to the UK corporation tax rates were substantially enacted as part of Finance Bill 2016 (on September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Property, plant and equipment

	Land £'000	Buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2017	1,187	5,329	86,814	93,330
Additions	-	-	6,227	6,227
Disposals	-	-	(173)	(173)
Re-classification	-	99	(99)	-
At 31 December 2017	1,187	5,428	92,769	99,384
Additions	-	-	9,642	9,642
At 31 December 2018	1,187	5,428	102,411	109,026
Accumulated depreciation				
At 1 January 2017	-	(1,531)	(37,304)	(38,835)
Charge for the year	-	(252)	(5,702)	(5,954)
Disposals	-	-	99	99
At 31 December 2017	-	(1,783)	(42,907)	(44,690)
Charge for the year	-	(250)	(4,994)	(5,244)
At 31 December 2018	-	(2,033)	(47,901)	(49,934)
Net Book Value				
At 1 January 2017	1,187	3,798	49,510	54,495
At 31 December 2017	1,187	3,645	49,862	54,694
At 31 December 2018	1,187	3,395	54,510	59,092

The cost of fixed assets above includes assets held under finance leases (within buildings) amounting to £66k (2017: £66k).

No borrowing costs have been capitalised on additions in 2018 and 2017.

Depreciation has been charged in the income statement as follows:

	2018 £'000	2017 £'000
Cost of goods sold	5,244	5,954
	5,244	5,954

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Intangible assets

	Goodwill £'000	Customer relationships £'000	Non-compete agreement £'000	REACH costs £'000	Total £'000
Cost					
At 1 January 2017	26,186	25,551	-	582	52,319
Additions	-	-	-	127	127
At 31 December 2017	26,186	25,551	-	709	52,446
Additions	-	-	-	224	224
At 31 December 2018	26,186	25,551	-	933	52,670
Accumulated amortisation					
At 1 January 2017	-	(20,995)	-	(93)	(21,088)
Charge for the year	-	(2,195)	-	(30)	(2,225)
At 31 December 2017	-	(23,190)	-	(123)	(23,313)
Charge for the year	-	(2,180)	-	(37)	(2,217)
At 31 December 2018	-	(25,370)	-	(160)	(25,530)
Net book value					
At 1 January 2017	26,186	4,556	-	489	31,231
At 31 December 2017	26,186	2,361	-	586	29,133
At 31 December 2018	26,186	181	-	773	27,140

The cost of amortisation of Intangible assets for the year of £2,217k (2017: £2,225k) has been included within distribution costs in the income statement.

Following the acquisition of the Caprolactones business from Solvay in January 2008, a fair value was established for both the customer relationships 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 relationships and 6 years for the non-compete agreement. The non-compete agreement was fully written down in the prior years.

During the year the company has capitalised costs of £224k (2017: £127k) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Intangible assets (continued)

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.

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. This opportunity will be possible by the introduction of new products, and the growth into new markets, using our existing product range. With these two areas combined, Ingevity UK Ltd. will be positioned well to fulfil its strategic plan.

The current production capacity at the site is able to accommodate this anticipated growth without need for significant CAPEX, which is contributing to the increase in estimated taxable profitability.

12 Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Property plant and equipment	-	-	(2,981)	(2,359)
Intangibles	-	-	(1,959)	(1,780)
Losses	3,722	4,678	-	-
	3,722	4,678	(4,940)	(4,139)

Movement in deferred tax during the year

	1 January 2018 £'000	Recognised in income £'000	31 December 2018 £'000
Property plant and equipment	(2,359)	(622)	(2,981)
Intangibles	(1,780)	(178)	(1,958)
Losses	4,678	(956)	3,722
	539	(1,756)	(1,217)

Movement in deferred tax during the previous year

	1 January 2017 £'000	Recognised in income £'000	31 December 2017 £'000
Property plant and equipment	(1,982)	(377)	(2,359)
Intangibles	(1,602)	(178)	(1,780)
Losses	4,647	31	4,678
	1,063	(524)	539

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 sufficient taxable profits being earned. The tax asset is recognised as the company have forecasted a taxable profitability to be realised in the next 3 years. Therefore, this asset is maintained on the balance sheet.

Due to the continued improved trading performance of the company all losses have now been recognised (2017: £2,000k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	2,660	2,518
Finished goods and goods for resale	6,493	5,442
Less: provision for impairment of inventories	(671)	(548)
At 31 December	8,482	7,412

The amount of inventories included in cost of sales amounted to £58,548k (2017: £59,305k). The movement on the inventory impairment reserve is £671k (2017: £548k) during the year impacts upon the earnings for the year in the income statement within cost of sales.

14 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	3,104	3,858
Prepayments	990	190
Receivables from related parties	3,772	3,884
Amounts due from group undertakings	39,467	28,562
Corp Tax	343	-
VAT	955	782
Emission Allowances	69	81
Other receivables	331	-
At 31 December	49,031	37,357

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

Analysis of trade receivables	2018 £'000	2017 £'000
Not due receivables	6,362	7,561
Due receivables:		
1-10 days	469	216
11-30 days	92	(28)
31-60 days	(11)	122
61-90 days	(10)	(175)
91 days >	(26)	46
Total trade receivables	6,876	7,742

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.

Amounts due from group undertakings of £39.5m (2017: £28.6m) which relates to cash pooling arrangements within the Perstorp group. In the UK statutory accounts these amounts have been shown in the past as part of the cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	10,021	11,574
Amounts due to related parties	1,919	2,548
Corporation Tax	-	482
Other tax and social security	175	140
Accrued expenses	1,548	1,879
Balance at 31 December	13,663	16,623

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.

	2018 £'000	2017 £'000
Gross obligations under finance leases	-	12
Present value of lease obligations	-	12

Net obligations under finance leases fall due as follows.

	2018 £'000	2017 £'000
Within one year	-	12
Present value of lease obligations	-	12

17 Borrowings

	2018 £'000	2017 £'000
Current borrowings		
Borrowings from related parties – Perstorp Financial Services AB	1,376	1,342
Accrued interest due to related parties		
Balance as at 31 December	1,376	1,342
Non-current borrowings:		
Borrowings from related parties – Perstorp Financial Services AB	87,410	83,153
Balance as at 31 December	87,410	83,153
Total borrowings	88,786	84,495

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Borrowings (continued)

On completion of sale to Ingevity Corporation, all loans from Perstorp Financial Services AB were settled in full and replaced with a short term loan of £98 million. This is a low interest loan and the company has the option to reduce the loan amount when cash flow allows.

Currency composition and interest rates of borrowings:	Amount in currency '000s	Sterling equivalent £'000	Effective interest rate (%)
Borrowings from related parties:			
Loan denominated in EUR owed to ultimate parent company	31,182	28,234	8.78%
Loan denominated in USD owed to ultimate parent company	74,857	59,176	11.42%
	106,039	87,410	

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

18 Share Capital

	2018		2017	
	Number '000	£'000	Number '000	£'000
Authorised:				
Ordinary shares of £1 each	10	10	10	10
Ordinary A shares of €1 each	40,000	29,692	40,000	29,692
	40,010	29,702	40,010	29,702
Allotted, called up and fully paid:				
Ordinary shares of £1 each	10	10	10	10
Ordinary A shares of €1 each	40,000	29,692	40,000	29,692
	40,010	29,702	40,010	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 Key management compensation and directors' remuneration

	2018 £'000	2017 £'000
Staff costs (including directors' remuneration) for the company during the year were as follows:		
Wages and salaries	4,573	4,535
Social security costs	540	541
Other pension costs (note 20)	921	817
	6,034	5,893

Average monthly number of people (including executive directors) employed by the company during the year:	2018 Number	2017 number
Administration	26	23
Production	59	59
	85	82

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Key management compensation and directors' remuneration (continued)

Key management compensation and directors' remuneration

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

	2018 £'000	2017 £'000
Short-term employee benefits	303	230
Post-employment benefits	45	44
	348	274

Retirement benefits are accruing under the money purchase pension scheme in respect of qualifying services for two directors (2016: two).

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

	2018 £'000	2017 £'000
Short-term employee benefits	158	118
Post-employment benefits	23	22
	181	140

20 Pension commitments

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

	2018 £'000	2017 £'000
Cost of sales	772	688
Distribution costs	91	103
Administration costs	58	26
	921	817

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:

	2018		2017	
	Land and buildings £'000	Vehicles, plant and equipment £'000	Land and buildings £'000	Vehicles, plant and equipment £'000
Within one year	135	70	23	85
Within two to five years	540	79	60	161
After five years	495	-	15	-
Total	1,170	149	98	246

	2018		2017	
	Land and buildings £'000	Vehicles, plant and equipment £'000	Land and buildings £'000	Vehicles, plant and equipment £'000
Minimum lease payment	110	111	110	99

INGEVITY UK LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Related party transactions

The largest group of which Ingevity UK Ltd was a member was that headed by Perstorp Holding AB which is 100% owned by Luxembourg based Financiere Foret S.A.R.L. The company became a wholly owned subsidiary of Ingevity Corporation, a public company listed on the NYSE (NGVT), on 13th February 2019.

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 were incurred on patents and trademarks owned by the immediate holding company and were charged at a market rate (Ingevity UK Ltd now owns full intellectual property rights). Services are purchased from related parties on a cost-plus basis. Management, sales, marketing, legal, technical and administration services are purchased.

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

	2018 £'000	2017 £'000
Receivables from related parties:		
Fellow subsidiary company	3,746	3,878
Immediate parent company	26	6
	3,772	3,884
Payables to related parties:		
Fellow subsidiary company	252	348
Immediate parent company	1,603	2,144
Ultimate parent company	64	56
	1,919	2,548

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:

	2018 £'000	2017 £'000
Sales of goods:		
Fellow subsidiary company	34,428	34,548
	34,428	34,548
Sales of services:		
Fellow subsidiary company	334	271
Immediate parent company	431	75
	765	346

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Related party transactions (continued)

	2018 £'000	2017 £'000
Purchase of goods:		
Fellow subsidiary company	1,429	1,119
	1,429	1,119
Purchase of services:		
Fellow subsidiary company	1,409	1,205
Immediate parent company	6,145	5,959
Ultimate parent company	402	316
	7,956	7,480
Royalties payable:		
Immediate parent company	8,004	7,739
	8,004	7,739
Interest payable:		
Fellow subsidiary company	8,931	9,401
	8,931	9,401

23 Ultimate parent company

The company was a wholly owned subsidiary undertaking of Perstorp AB, incorporated in Sweden up until 13th February 2019. Ingevity UK Ltd is now a wholly owned subsidiary of USA based Ingevity Corporation, a listed company on the New York Stock Exchange.

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.

24 Cash generated from operations

	2018 £'000	2017 £'000
Profit before tax	14,456	14,686
Adjustments for:		
Depreciation (including loss in assets disposed)	5,244	6,028
Amortisation of intangible assets	2,217	2,225
Increase in inventories	(1,070)	(1,730)
Increase in trade and other receivables	(769)	(2,564)
(Decrease)/increase in trade and other payables	(2,972)	6,533
Income tax due included in Debtors	-	(41)
Income tax due included in Creditors	826	(482)
Finance income	(402)	(4,485)
Finance costs	13,914	10,656
Cash generated from operations	31,444	30,826

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Post Balance Sheet Events

1. On 13th February 2019, Ingevity Corporation, with a registered office at 5255 Virginia Avenue, South Carolina, USA purchased 100% of the shares of Perstorp UK Ltd. Ingevity Corporation is a listed company on the New York Stock Exchange and is now the ultimate holding company of Ingevity UK Ltd. At the time of acquisition all long term loans were repaid in full to Perstorp Financial Services and the directors of Ingevity Corporation issued a new loan to Ingevity UK Ltd. A letter of support has been provided by Ingevity Corporation guaranteeing the continued trading viability of Ingevity UK Ltd.
2. During 2018, the Company acquired a 51% controlling interest in Elogio BV based in The Netherlands. The value of £181k stated on the balance sheet as shares in group companies has subsequently been written off following the decision by Ingevity Corporation not to pursue this joint venture.
3. In July 2019, Ingevity UK Ltd changed bankers from Nordea to HSBC. The new address is as follows:

HSBC UK Bank plc
60 Queen Victoria Street
London
EC4N 4TR