

**Akzo Nobel Powder Coatings Limited**

**Directors' report and financial  
statements**

Registered number 1725413

31 December 2008

MONDAY



\*AFKCREMC\*

A14

02/11/2009

291

COMPANIES HOUSE

## Contents

Officers and advisors	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditors' report to the members of Akzo Nobel Powder Coatings Limited	5
Profit and Loss Account	7
Balance Sheet	8
Reconciliation of Movements in Shareholders' Funds	9
Notes	10

## **Officers and advisors**

### **Directors**

R Randall  
R Molenaar  
M Booth  
I Wilson  
S Jenner

### **Secretary**

OH Secretariat Limited

### **Auditors**

KPMG LLP  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

### **Bankers**

HSBC PLC  
90 Baker Street  
London  
W1M 2AX

### **Solicitors**

Reed Smith Richards Butler LLP  
Trigen House  
Central Boulevard  
Blythe Valley Park  
Solihull  
B90 8AB

### **Registered office**

26<sup>th</sup> Floor  
Portland House  
Bressenden Place  
London  
SW1E 5BG

## Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2008.

### Principal activities

The principal activities of the company remain as manufacture and sale of thermo-setting powder paint, but also include sales by Cromadex which sells both wet paint and powder to the general industrial market,

### Results and dividends

The operating loss for the year, before taxation and interest but after pension fund adjustment, amounted to £694,000 (2007: loss of £4,897,000). The directors cannot recommend the payment of a dividend (2007: £nil). The retained loss for the year of £481,000 (2007: loss of £3,347,000) has been transferred to reserves.

### Change of registered office

On 30 June 2008 the company changed its registered office address to 26<sup>th</sup> Floor, Portland House, Bressenden Place, London, SW1E 5BG.

### Business review

As with all business, the economic downturn and 'credit crunch' has had a significant adverse effect on trading conditions.

Our external powder volume shows a 5% volume fall, due to a very poor final quarter sales. Average selling price showed a 2% external increase.

Raw material prices continue to increase due to the current strength of the euro, which effects over 90% of our raw material purchases. We anticipate this situation to continue into 2009.

Our European supply demand fell by 30% as Europe struggles to find volume. Production volume fell by 14% over prior year as sales and working capital was addressed.

A further £2,547,000 was paid into the CPS Pension scheme as deficit contribution.

Current weakness of sterling compared to the euro is a major threat to on-going profitability as our raw materials are euro based. With a smaller market it is also increasingly difficult to obtain selling price rises. Recession is apparent throughout the industry.

As a result of the tough economic conditions a decision was made in early 2009 to re-structure the manufacturing activities at Felling site. The cash and non-cash costs arising will be charged in the 2009 financial statements. Certain bulk production will be transferred to our European manufacturing locations, although Felling remains firmly as a manufacturing site with specific responsibility for fulfilling our Rapid service manufacturing offer. The administrative and Sales order functions will be transferred to our Cromadex Birmingham headquarters and Distributor network. A number of redundancies will be inevitable. No firm decision has yet been made as to the future use of certain fixed assets which will become superfluous, although it is anticipated that they will either be mothballed or transferred to other Akzo Nobel European operations.

### Directors

The directors who held office during the period were as follows:

R Randall	(resigned 15 October 2009)
R Molenaar	
M Booth	
I Wilson	
S Jenner	(appointed 20 March 2009, resigned 15 October 2009)
J Kettley	(appointed 15 October 2009)
M Osmond	(appointed 15 October 2009)

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

### **Employment of disabled persons**

Where individuals become disabled whilst in the Company's employment, every reasonable effort is made to provide opportunity for continued employment within the potential aptitude and ability of the person concerned, and to provide such facilities, including any appropriate training, as may be necessary for that purpose. In dealing with applications for employment and the training, career development and promotion of existing employees, efforts are made to ensure that a disabled individual's potential aptitude and ability are considered both without prejudice and as constructively as possible in relation to the opportunities available.

### **Employee involvement**

A departmental briefing and feedback process and a works consultative committee operates in all factories. Under the banner of 'How are we doing?' the Company provides monthly communications to its employees regarding the financial and economic factors affecting performance by market sector and geographic region.

### **Charitable donations**

During the year the Company made charitable donations of £8,977 (2007: £14,010). There were no political donations.

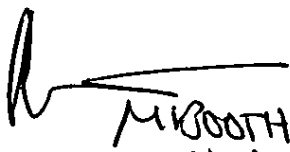
### **Disclosure of information to auditors**

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

### **Auditors**

In accordance with Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

  
M Booth  
Director  
19/10/2009.

26<sup>th</sup> Floor  
Portland House  
Bressenden Place  
London  
SW1E 5BG

2009

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

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

We have audited the financial statements of Akzo Nobel Powder Coatings Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements.

In addition we report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG LLP*

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

*19 October* 2009



**Profit and Loss Account**  
*for the year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>49,645</b>	<b>52,607</b>
<b>Cost of sales</b>		<b>(34,577)</b>	<b>(36,005)</b>
<b>Gross profit</b>		<b>15,068</b>	<b>16,602</b>
Distribution costs		(7,256)	(7,307)
Administrative expenses <i>(including an exceptional pension contribution of £2,547,000 (2007: £9,080,000))</i>		(8,506)	(14,192)
<b>Operating loss</b>	<b>3-5</b>	<b>(694)</b>	<b>(4,897)</b>
Other interest receivable and similar income	6	732	564
Interest payable and similar charges	7	(386)	(626)
<b>Loss on ordinary activities before taxation</b>		<b>(348)</b>	<b>(4,959)</b>
Tax on loss on ordinary activities	8	(133)	1,612
<b>Loss for the financial year</b>	<b>16</b>	<b>(481)</b>	<b>(3,347)</b>

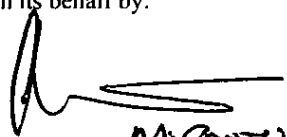
The company had no recognised gains or losses other than the results shown in the profit and loss account.

All results arose from continuing activities.

**Balance Sheet**  
*at 31 December 2008*

	<i>Note</i>	2008 £000	2007 £000
<b>Fixed assets</b>			
Intangible assets	9	14,449	15,483
Tangible assets	10	3,982	4,186
		<u>18,431</u>	<u>19,669</u>
<b>Current assets</b>			
Stocks	11	4,144	4,634
Debtors	12	21,916	19,439
Cash at bank and in hand		11	14
		<u>26,071</u>	<u>24,087</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(33,398)</u>	<u>(32,136)</u>
<b>Net current liabilities</b>		<u>(7,327)</u>	<u>(8,049)</u>
<b>Total assets less current liabilities</b>		<u>11,104</u>	<u>11,620</u>
<b>Provisions for liabilities</b>	14	<u>(109)</u>	<u>(144)</u>
<b>Net assets</b>		<u>10,995</u>	<u>11,476</u>
<b>Capital and reserves</b>			
Called up share capital	15	20,002	20,002
Profit and loss account	16	(9,007)	(8,526)
<b>Shareholders' funds</b>		<u>10,995</u>	<u>11,476</u>

These financial statements were approved by the board of directors on 19<sup>th</sup> OCT 2009 and were signed on its behalf by:

  
M Booth  
Director  
19/10/2009.

REGISTRATION NUMBER 1725413

**Reconciliation of Movements in Shareholders' Funds**  
*for the year ended 31 December 2008*

	2008 £000	2007 £000
Loss for the financial year	(481)	(3,347)
Opening shareholders' funds	11,476	14,823
Closing shareholders' funds	10,995	11,476

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Akzo Nobel NV, the company has taken advantage of the exemption contained in FRS No 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Akzo Nobel NV, within which the company is included, can be obtained from the address in note 20.

Prior to contributions to the Akzo Nobel NV pension deficit the company is profitable and has significant net assets. The company's day to day working capital requirements are met through cash generated from its operations and through the provision of group funding through the intercompany account. The ultimate parent company, Akzo Nobel N.V., has considerable financial resources which are available to the company.

The directors, having made appropriate enquiries, consider that the company has adequate resources to continue in operational existence for the foreseeable future, and it is therefore appropriate to adopt the going concern basis in preparation of the financial statements.

#### *Turnover*

Turnover represents the value of goods and services supplied to customers exclusive of VAT.

#### *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

#### *Tangible fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land and buildings	- 2% per annum
Plant and machinery	- 10% per annum
Fixtures and fittings	- 20% per annum
Motor vehicles	- 20% per annum

## Notes (continued)

### 1 Accounting policies (continued)

#### *Stocks and work in progress*

Stocks are stated at the lower of cost and net realisable value. Cost is defined as "costs incurred bringing each product to its present location and condition", which are as follows:

Raw materials and goods for resale	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred completing and delivering the goods.

#### *Taxation*

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction, and hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Leases*

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

#### *Post-retirement benefits*

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

With effect from 1 January 2005 the company also participates in a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period (see note 18).

## Notes (continued)

### 1 Accounting policies (continued)

#### *Research and development expenditure*

Expenditure on research and development is written off against profits in the year in which it is incurred.

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

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

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

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

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

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

#### *Share based payments*

The share option programme allows employees to acquire shares of the ultimate parent company. The fair value of options granted after 7 November 2002 and those not yet vested is recognised as an employee expense with a corresponding increase in equity of the ultimate parent company. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

## Notes (continued)

### 2 Analysis of turnover

The turnover and loss on ordinary activities before taxation are fully attributable to the production and sale of Powder Coatings.

An analysis of turnover by geographical market is given below:

	2008 £000	2007 £000
<i>Continuing operations</i>		
United Kingdom and Eire	41,751	42,224
Europe	7,894	10,383
	<u>49,645</u>	<u>52,607</u>

The analysis of operating profit by geographical market has not been disclosed. In the opinion of the directors, such disclosure would be prejudicial to the interests of the company.

An analysis of turnover by activity is given below:

	2008 £000	2007 £000
<i>Continuing operations</i>		
Sale of powder coatings	37,773	38,676
Sale of wet paint	11,872	13,931
	<u>49,645</u>	<u>52,607</u>

### 3 Notes to the profit and loss account

	2008 £000	2007 £000
<i>Loss on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation of owned tangible fixed assets	962	964
Hire of plant and machinery – operating leases	261	253
Hire of other assets – operating leases	476	529
Amortisation of goodwill	1,034	1,221
Contribution to pension deficit	2,547	9,080
Research and development expenditure	2,020	2,076
Exchange gain	(578)	(601)

In the current year the company made a contribution of £2,547,000 (2007: £9,080,400) towards the deficit in the Akzo Nobel (CPS) pension scheme.

## Notes (continued)

### 3 Notes to the profit and loss account (continued)

	2008 £000	2007 £000
<i>Auditors remuneration</i>		
- audit of these financial statements	23	22

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent.

### 4 Remuneration of directors

	2008 £000	2007 £000
Directors emoluments	611	843
Number of directors who were members of the defined benefit scheme	3	3

Emoluments attributable to the highest paid director are £270,000 (2007: £289,000).

The highest paid director is not a member of a defined benefit scheme.

### 5 Staff numbers and costs

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

	Number of employees	
	2008	2007
Office and management	174	184
Production and other	121	130
	295	314

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	9,754	10,327
Social security costs	931	870
Share based payments (note 19)	873	168
Redundancy costs	225	68
Pension costs (note 18)	1,590	1,400
	13,373	12,833



**Notes (continued)**

**6 Other interest receivable**

	2008 £000	2007 £000
Bank interest	732	564

**7 Interest payable**

	2008 £000	2007 £000
On bank loans and overdrafts	386	626

**8 Taxation**

Analysis of charge/(credit) in period

	2008 £000	2007 £000
<i>UK corporation tax</i>		
Current tax on income for the period	218	(1,040)
Adjustments in respect of prior periods	(50)	(347)
Total current tax	168	(1,387)
<i>Deferred tax (note 14)</i>		
Origination/reversal of timing differences	(35)	(225)
	(35)	(225)
Tax on loss on ordinary activities	133	(1,612)

## Notes (continued)

### 8 Taxation (continued)

#### Factors affecting the tax credit for the current period

The current tax charge for the period is higher (2007: lower) than the standard rate of corporation tax in the UK (28.5%, 2007: 30%). The differences are explained below.

	2008 £000	2007 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(348)	(4,959)
Current tax at 28.5% (2006: 30%)	(99)	(1,487)
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	282	409
Capital allowances for period less than depreciation	35	38
Adjustments in respect of prior periods	(50)	(347)
Total current tax charge (see above)	168	(1,387)

The corporation tax rate applicable to the company changed from 30% to 28% from 1 April 2008. Any timing differences which reverse prior to 1 April 2008 are relieved at 28%.

### 9 Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
At beginning and end of year	21,426
<i>Amortisation</i>	
At beginning of year	5,943
Charge in year	1,034
At end of year	6,977
<i>Net book value</i>	
At 31 December 2008	14,449
At 31 December 2007	15,483

Goodwill arising on the trade and net assets of businesses transferred to the company is being amortised in full, on a straight line basis, over 20 years. This is the period over which the directors consider that benefit will be derived.

## Notes (continued)

### 10 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
At beginning of year	2,602	17,917	1,356	21,875
Additions	110	532	-	642
Intergroup transfers	-	116	-	116
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,712	18,565	1,356	22,633
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At beginning of year	2,068	14,493	1,128	17,689
Charge for year	85	847	30	962
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,153	15,340	1,158	18,651
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31 December 2008	559	3,225	198	3,982
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	534	3,424	228	4,186
	<hr/>	<hr/>	<hr/>	<hr/>

### 11 Stocks

	2008 £000	2007 £000
Raw materials and consumables	666	864
Finished goods and goods for resale	3,478	3,770
	<hr/>	<hr/>
	4,144	4,634
	<hr/>	<hr/>

## Notes (continued)

### 12 Debtors

	2008 £000	2007 £000
Trade debtors	6,458	8,009
Amounts owed by group undertakings	13,864	9,834
Other debtors	111	282
Prepayments and accrued income	709	372
Corporation tax	774	942
	<u>21,916</u>	<u>19,439</u>

### 13 Creditors: Amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	6,924	7,062
Amounts owed to group undertakings	25,134	21,893
Taxation and social security	137	465
Other creditors	313	846
Accruals and deferred income	890	1,870
	<u>33,398</u>	<u>32,136</u>

### 14 Provisions for liabilities

	Deferred taxation £000
At beginning of year	144
Credit for the year (see note 8)	(35)
<b>At end of year</b>	<b><u>109</u></b>

The elements of deferred taxation are as follows:

	2008 £000	2007 £000
Difference between accumulated depreciation and amortisation and capital allowances	<u>109</u>	<u>144</u>

## Notes (continued)

### 15 Called up share capital

	2008 £000	2007 £000
<i>Authorised:</i>		
21,000,000 Ordinary shares of £1 each	21,000	21,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
20,002,000 Ordinary shares of £1 each	20,002	20,002
	<hr/>	<hr/>

### 16 Reserves

	Profit and loss account £000
At beginning of year	(8,526)
Loss for the year	(481)
	<hr/>
At end of year	(9,007)
	<hr/>

### 17 Commitments

- (a) The company has capital commitments of £240,000 at the end of the current year (2007: £128,000).
- (b) Annual commitments under non-cancellable operating leases are as follows:

	2008 £000	Other 2007 £000
<i>Operating leases which expire:</i>		
Within one year	257	163
In the second to fifth year inclusive	433	995
	<hr/>	<hr/>
	690	1,158
	<hr/>	<hr/>

## Notes (continued)

### 18 Pension scheme

#### Akzo Nobel UK Pension Scheme.

The Company participates in the Akzo Nobel (CPS) Pension Scheme ('the CPS scheme') providing benefits based on final pensionable pay.

The CPS scheme is a multi-employer scheme in which the Company is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. The pension cost charge for the period represents contributions payable by the company to the scheme.

The latest full actuarial valuation was carried out at 31 March 2006 by a qualified independent actuary. At this valuation the market value of the scheme assets was sufficient to cover 89% of the benefits that had accrued to members at that date.

The contribution rate is generally reviewed every three years following each full actuarial valuation of the scheme. Following the 2006 valuation, the regular contribution increased to 25% with effect from 1 April 2007, of pensionable pay, plus variable deficit contributions.

As a result of market volatility, the trustees and Akzo Nobel N.V., the ultimate parent company, agreed that an additional contribution of £25 million would be made as a deficit contribution in 2008 (2007: £98.7 million). This contribution was made by another group undertaking in 2008 and 2007. The portion of this additional deficit contribution charged to the company for 2008 was £2,547,000 (2007: £9,080,400).

#### Akzo Nobel (CPS) Pension Scheme Defined Contribution Section

The company is a member of the Akzo Nobel (CPS) Pension Scheme Defined Contribution Section providing benefits based on contributions made. Costs were £1,590,000 (2007: £1,400,000). There were no outstanding or prepaid contributions at the beginning or end of the financial year.

#### Summary

The total pension cost charge for the period represents contributions payable by the company to both schemes and amounted to £4,137,000 (2007: £10,479,766).

### 19 Employee share schemes

Performance-related stock options and performance-related shares are granted to senior executives. There were 16 participants in 2008 (13 in 2007). Options granted from 2002 expire after seven years. Any options granted prior to 2002 lapsed in 2006.

Options are granted in shares of the parent company, Akzo Nobel NV.

Options cannot be exercised in the first 3 years.

The exercise price is the Euronext Amsterdam opening price on day of share quote.

In 2005 a performance related share plan was introduced, whereby conditional shares are granted to senior executives, subject to service conditions and dependent on Akzo Nobel Group Total Shareholder Return performance.

## Notes (continued)

### 19 Employee share schemes (continued)

From July 1 2005, stock options are equity settled. The employee receives the shares from the company upon exercise of the options and is free to sell the shares immediately.

Share options are granted under a service condition and a non-market performance condition.

No share options were granted in 2008.

Outstanding Option rights and performance-related share information as below.

#### Outstanding option rights and performance- related shares:

Year of issue Share options	Exercise price Euro	Outstanding at 31 December, 2007 number	Granted in 2008 number	Exercised in 2008 number	Transfer to other group companies 2008 number	Lapsed in 2008 number	Outstanding at 31 December, 2008 number	Expiry date
Unconditional								
2002	46.53	2,640	-	(1,760)	-	-	880	25 Apr 2009
2003	19.51	880	-	-	-	-	880	22 Apr 2010
		<u>3,520</u>	<u>-</u>	<u>(1,760)</u>	<u>-</u>	<u>-</u>	<u>1,760</u>	
Conditional								
2004	31.45	3,600	-	(1,800)	-	-	1,800	25 Apr 2011
2005	31.98	14,138	-	(1,850)	(500)	-	11,788	24 Apr 2012
2006	46.46	13,090	-	-	-	-	13,090	26 Apr 2013
2007	58.89	13,040	-	-	779	-	13,819	26 Apr 2014
2008		-	-	-	-	-	-	
		<u>43,868</u>	<u>-</u>	<u>(3,650)</u>	<u>279</u>	<u>-</u>	<u>40,497</u>	
<b>Total</b>		<u>47,388</u>	<u>-</u>	<u>(5,410)</u>	<u>279</u>	<u>-</u>	<u>42,257</u>	
		Outstanding at 31 December, 2007 number	Granted in 2008 number	Exercised in 2008 number	Transfer to other group companies 2008 number	Lapsed in 2008 number	Outstanding at 31 December, 2008 number	
Performance related shares								
2005		20,788	-	(20,038)	(750)	-	-	
2006		15,113	-	-	-	-	15,113	
2007		15,000	-	-	963	-	15,963	
2008		-	9,326	-	-	-	9,326	
		<u>50,901</u>	<u>9,326</u>	<u>(20,038)</u>	<u>213</u>	<u>-</u>	<u>40,402</u>	

## Notes (continued)

### 19 Employee share schemes (continued)

The share price of a common Akzo Nobel share as at 31 December 2008 amounted to €29.44 (2007: €54.79)

	2008	Weighted average exercise price €
	Number of shares	
Outstanding at the beginning of the year	47,388	43.92
Granted during the year	-	-
Expired during the year	-	-
Exercised in the year	(5,410)	36.64
Transferred in year	279	107.21
Outstanding at the end of the year	42,257	45.29
Exercisable at the end of the year	15,348	32.04

During the year a number of employees transferred to fellow group undertakings and accordingly their share options were transferred.

#### Details of options granted in the year

The fair value of the options is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options or performance shares. The expected value of the performance stock options is based on the binomial option pricing model, using certain assumptions. These assumptions were used for these calculations only and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The company's employee stock options have characteristics significantly different from traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

No stock options were granted in 2008. The fair value and the assumptions used for the options granted in 2007 were as follows:

	Euros 2007
Fair value at measurement date	
Share price	58.89
Exercise price	58.89
Expected share price volatility (%)	20.80
Expected option life (years)	5
Expected dividend yield (%)	2.20
Risk free interest rate (%)	4.22

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a nonmarket performance condition.

Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with share option grants.



## Notes (continued)

### 19 Employee share schemes (continued)

The grant date fair value of the performance shares is amortised as a charge against income over the three year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking into account market conditions as well as expected dividends. The value was calculated by external specialists and amounted to EUR 33.98 for the performance shares conditionally granted in 2008 (2007: EUR 21.77).

The expense recognised in the P&L in respect of share options is £873,000 (2007: £168,000).

### 20 Ultimate parent undertaking

The immediate parent company is Akzo Nobel (BLD) Coatings Limited and the ultimate parent company is Akzo Nobel NV, incorporated in the Netherlands.

The largest group in which the results of the company are consolidated is that headed by Akzo Nobel NV, incorporated in the Netherlands. The consolidated accounts of Akzo Nobel NV are available to the public and may be obtained from 76 Velperweg, PO Box 9300, 6800 SB Arnhem, The Netherlands.

### 21 Post balance sheet event

As a result of the tough economic conditions a decision was made in early 2009 to re-structure the manufacturing activities at Felling site. The cash and non-cash costs arising will be charged in the 2009 financial statements. Certain bulk production will be transferred to our European manufacturing locations, although Felling remains firmly as a manufacturing site with specific responsibility for fulfilling our Rapid service manufacturing offer. The administrative and Sales order functions will be transferred to our Cromadex Birmingham headquarters and Distributor network. A number of redundancies will be inevitable. No firm decision has yet been made as to the future use of certain fixed assets which will become superfluous, although it is anticipated that they will either be mothballed or transferred to other Akzo Nobel European operations.