

Akzo Nobel Finance Limited

Annual Report and Financial Statements

31 December 2019

Registered number 8478849



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Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2019.

Principal Activities

The Company's principal activity is to provide financing to fellow subsidiaries of Akzo Nobel N.V., the Company's immediate parent and ultimate parent company of the Group.

Business Review

The Company recorded €68m (2018: €66m) in net interest income and a net exchange loss of €31m (2018: loss €35m) on the Company's non-euro denominated loan book. The Company recorded a profit before taxation of €148m (2018: €13m).

The results for the year ended 31 December 2019 are set out on page 7 of the financial statements.

The net assets of the Company as at 31 December 2019 were €887m (2018: €1,509m).

On 15 November 2019 the Company was repaid USD 122,618,162 from Akzo Nobel Inc. when the receivable loan was due.

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, Akzo Nobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income. The outstanding loan balance between the parties following the release is zero.

On 11 December 2019 the Company's immediately owned subsidiary, Akzo Nobel Finance (2) Limited, reduced its share capital by reducing the nominal value of each Ordinary Share from USD 1.00 to USD 0.000000001521. Following the reduction, the issued share capital of the subsidiary was 657,328,744 Ordinary Shares with a total value of USD 1.00. The reduction in Share Capital was recorded as a credit to Akzo Nobel Finance (2) Limited's Other Distributable Reserves. This has resulted in the impairment of the Company's investment in Akzo Nobel Finance (2) Limited which was debited to the Company's Statement of Comprehensive Income.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 500,000,000 plus accrued interest of USD 1,483,167 due from Akzo Nobel Inc. to Akzo Nobel N.V. and received proceeds of USD 565,307,360. The loan had an expiry date of 30 November 2021.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 380,000,000 plus accrued interest of USD 18,948,155 due from Akzo Nobel Inc. to Akzo Nobel N.V. and received proceeds of USD 409,452,494. The loan had an expiry date of 28 December 2020.

On 11 December 2019 the Company reduced its share premium by €750,000,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

The company has agreed to novate intercompany loan at fair value plus accrued interest to Akzo Nobel N.V. The deeds are to be transacted in 2020 and early 2021.

At the year end, the principal value of the Company's Loan Book was €805m (2018: €1,842m).

Governance

The directors of the Company hold regular board meetings to analyse and discuss the financial results, performance of the Loan Book, new funding proposals and operations of the Company. There is also a set process in place for preparation, sign-off and delivery of funding proposals prior to submission to the Board, as well as a clear process for approving and signing loan facilities which meets the requirements of the Companies Act 2006 and intra-group procedures.

Principal risks and uncertainties

The principal risk for the Company is the exposure to adverse movements in the exchange rates of the Company's Loan Book. The Company manages this risk through the use of forward exchange contracts in line with the Company's policy on hedging. The Company's overall exchange exposure is reviewed on a daily basis and is hedged accordingly. The gain or loss resulting from exchange movements is reviewed by the Board of Directors of the Company on a regular basis.

Strategic Report *(continued)*

Key Performance Indicators

The key performance indicators for the Company are listed below:

Indicator	2019	2018	Delta
Interest Income	€94m	€92m	€24m
Average interest rate on loans due after more than one year	2.59%	5.11%	1.98%

Post Balance Sheet Events

On 6 January 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €175,000,000 against the 2A Loan of €365,000,000

On 28 February 2020, the Company agreed to novate, via 14 separate deeds, intercompany loan receivables with book values at that date of €781,000,000. At that date the value of intercompany loan receivable balance was €917,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted before 31 December 2020 with the majority being transacted in March 2020.

On 27 May 2020, the Company agreed to novate, via 2 separate deeds, intercompany loan receivables with book values at that date of €68,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted before 31 December 2020.

On 9 September 2020, the Company agreed to novate, via 6 separate deeds, intercompany loan receivables with book values at that date of €47,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted from September 2020 to early 2021.

On 9 September 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay remaining €190,000,000 against the 2A Loan.

On behalf of the Board

M Smalley
Director



The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

10 May 2021

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2019.

Dividend

The Directors do not recommend the payment of a dividend for the year (2018 €123.35 per share).

Going Concern

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its fellow group companies operate is uncertain at this time.

As of the signing date of these financial statements management was not aware of any material adverse effects on the financial statements for the year ended December 31, 2019 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

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

Directors

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

J. Keane

S. Ray

M. Smalley

D. Turner (Resigned 01 September 2020)

B. Williams (Appointed 01 September 2020)

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the current or prior financial year.

Financial Risk Management

Financial risk includes price risk, credit risk, liquidity risk and cash flow risk. These are addressed and managed at a group level as disclosed in the AkzoNobel Report 2019, pages 107 to 110 and may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

An overall risk management program seeks to identify, assess and if necessary, mitigate these financial risks in order to minimise potential adverse effects on financial performance.

Future developments

The directors feel that the Company is well placed to continue progress during 2020.

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 regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;

Directors' Report (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

- 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.

Directors' confirmations

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

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

Independent Auditors

PricewaterhouseCoopers LLP have been appointed as the Company's auditors, holding office until to the end of the next year for appointing auditors in accordance with section 485(4c) of the Companies Act 2006.

On behalf of the Board



J. Keane
Director

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

10 May 2021

Independent auditors' report to the members of Akzo Nobel Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Akzo Nobel Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 2019; the Statement of Comprehensive Income and 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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.

Independent auditors' report to the members of Akzo Nobel Finance Limited (continued)

Reporting on other information

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.

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 2019 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 set out on page 3-4, 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.

Miles Saunders (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
May 2021

Statement of Comprehensive Income
for the year ended 31 December 2019

	<i>Note</i>	2019 €m	2018 €m
Administrative expenses		-	(1)
Interest receivable and similar income	7	165	97
Interest payable and similar expenses	8	(59)	(63)
Other operating income	13	640	-
Amounts written off investments	10	(598)	(20)
		<hr/>	<hr/>
Profit before taxation		148	13
Tax on profit	9	(20)	(8)
		<hr/>	<hr/>
Profit for the financial year		128	5
		<hr/>	<hr/>
Total comprehensive income for the year		128	5
		<hr/>	<hr/>

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, Akzo Nobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income.

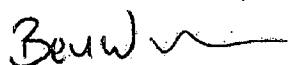
During 2019 a review of subsidiary undertakings with Akzo Nobel Finance (2) Limited resulted in an impairment loss of €597,610,675.

Balance Sheet
at 31 December 2019

	<i>Note</i>	2019 €m	2018 €m
Fixed assets			
Investments	10	155	1,301
Current assets			
Debtors (including €14m (2018: €770m) due after more than one year)	11	1,137	1,213
Creditors: amounts falling due within one year	12	(405)	(640)
Net current assets		<u>732</u>	<u>573</u>
Creditors: amounts falling due after more than one year	13	-	(365)
Net assets		<u>887</u>	<u>1,509</u>
Capital and reserves			
Called up share capital	15	2	2
Share premium account		716	1,466
Retained earnings		169	41
Total shareholders' funds		<u>887</u>	<u>1,509</u>

The notes on pages 10 to 20 form part of these financial statements.

These financial statements on pages 7 to 20 were authorised for issue by the board of directors on 10 May 2021 and were signed on its behalf by:



B. Williams
Director

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital €m	Share Premium account €m	Retained earnings €m	Total shareholders' funds €m
Balance at 1 January 2018	2	1,620	236	1,858
Profit for the financial year	-	-	5	5
Total comprehensive income for the year	-	-	5	5
Capital reduction	-	(154)	-	(154)
Dividends paid	-	-	(200)	(200)
Balance at 31 December 2018	2	1,466	41	1,509

	Called up share capital €m	Share Premium account €m	Retained earnings €m	Total shareholders' funds €m
Balance at 1 January 2019	2	1,466	41	1,509
Profit for the financial year	-	-	128	128
Total comprehensive income for the year	-	-	128	128
Capital reduction	-	(750)	-	(750)
Balance at 31 December 2019	2	716	169	887

On 14 February 2018, the directors declared an interim dividend of €200,000,000 to all shareholders on the Register, in the amount of €123.35 per share.

On 22 February 2018, the Company reduced its share capital by €154,000 and its share premium by €153,846,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

On 11 December 2019 the Company reduced its share premium by €750,000,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

Notes to the Financial Statements

1 General information

Akzo Nobel Finance Limited (the “Company”) is a private Company limited by shares and is incorporated and domiciled in the UK. The Company registration number is 8478849 and the registered office address is The AkzoNobel Building, Wexham Road, Slough, United Kingdom, SL2 5DS.

2 Accounting policies

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

2.1 Basis of preparation

These financial statements were prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”) under historical cost convention in Euro. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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

The financial statements are prepared on the historical cost basis and derivative financial assets and financial liabilities measured at fair value through profit and loss.

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

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

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

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

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

2.2 New standards, amendments and IFRIC interpretations

In 2019 the most significant change in accounting policies adopted by the AkzoNobel Group relate to adoption of IFRS 16 "Leases". IFRS 16 replaces the previous standard on lessee accounting for leases. It requires lessees to bring most leases on balance sheet in a single lease accounting model, recognizing a right-of-use asset and a lease liability. The implementation of IFRS 16 has not led to a recognition of right-of-use assets and a lease liability as at 1 January 2019.

2.3 Going concern

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

2.4 Interest receivable/ (payable) and similar income/ (expense)

Interest receivable/ (payable) and similar income/ (expense) comprises interest on amounts owed by / (owed to) group undertakings is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate, net exchange movements on amounts owed by/ (owed to) group undertakings and movements in fair value of related derivative financial instruments.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Euro' (€), which is also the Company's functional currency.

(b) Transactions and balances

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

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

2.6 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income.

The Company uses derivatives financial instruments to hedge its exposure to currency translations arising from financing activities unless where repayment of a loan is not currently intended in the foreseeable future. The entity does not use hedge accounting.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

2.7 Current and deferred tax

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

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

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

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

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

2.8 Debtors

Amounts receivable are amounts due from group companies for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

The impairment is calculated using the simplified approach which requires recognition of lifetime expected credit loss (no tracking of changes in credit risk).

2.9 Creditors

Amounts payable are amounts due to group companies for services that have been acquired in the ordinary course of business.

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

2.10 Borrowings

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

2.11 Investments in subsidiaries and associated undertakings

Investments in subsidiaries, associates and joint ventures are held at cost less accumulated impairment losses. Investments are annually reviewed and considered for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

2.12 Fixed asset investments

Fixed asset investments consist of loans advanced to fellow group companies where repayment is not currently intended in the foreseeable future.

2.13 Employee benefits

Defined contribution plans

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

2.14 Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

3 Critical accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

(a) Impairment of debtors

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

(b) Impairment of non-financial assets

When assessing impairment of non-financial assets, management considers factors including the net asset value, nature of the entity, historical experience (such as political environment).

4 Auditors' remuneration

There is no charge for the remuneration of auditors' in the financial statements of the Company as the auditors' fee of £13,770 (2018: £15,000) in relation to the audit of this Company was borne by another group company and is not recharged.

Notes to the Financial Statements *(continued)*

5 Directors

Directors of a Company also provide qualifying services to other Group companies. Directors' time is not apportioned, and their costs are not allocated between Group companies.

The remuneration of directors paid by the Company is as follows:

	2019 €000	2018 €000
Aggregate directors' emoluments in respect of qualifying services	230	222
Amounts receivable under long term incentive schemes	54	55
Company contributions to money purchase pension schemes	-	-
	<u> </u>	<u> </u>

The remuneration of directors paid by other Group companies and not recharged, for services to the Group as a whole including this Company, is as follows:

	2019 €000	2018 €000
Aggregate directors' emoluments paid by other Group Companies	550	533
Amounts receivable under long term incentive schemes	88	83
Company contributions to money purchase pension schemes	16	5
Contributions to defined benefit schemes	138	148
	<u> </u>	<u> </u>

The following includes all Directors:

	Number of employees	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
	<u> </u>	<u> </u>
The number of directors in respect of whose services, shares in the ultimate parent company were received or are receivable under long term incentive schemes	2	2
	<u> </u>	<u> </u>

Post-employment benefits are accruing for two directors (2018: two) under a defined benefit scheme.

Highest paid director

The highest paid director's emoluments were as follows:

Director did not participate in the defined benefit pension scheme

	2019 €000	2018 €000
Total amount of emoluments and amounts (excluding shares) receivable under		
Long-term incentive schemes	284	277
Money purchase schemes	-	-
	<u> </u>	<u> </u>

Notes to the Financial Statements *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2019	2018
By activity		
Corporate	1	1

The aggregate payroll costs of these persons were as follows:

	2019 €000	2018 €000
Wages and salaries	284	277
Social security costs	35	37
Other pension costs	-	-
	<u>319</u>	<u>314</u>

7 Interest receivable and similar income

	2019 €m	2018 €m
Interest receivable from group undertakings	94	92
Profit on transfer of loan assets	71	5
	<u>165</u>	<u>97</u>

8 Interest payable and similar expenses

	2019 €m	2018 €m
Interest payable to group undertakings	(26)	(26)
Fair value losses on derivative financial instruments	(2)	(2)
Net exchange losses	(31)	(35)
	<u>(59)</u>	<u>(63)</u>

The Company uses derivative financial instruments to hedge its exposure to currency translations arising from financing activities unless where repayment of a loan is not currently intended in the foreseeable future.

Notes to the Financial Statements *(continued)*

9 Tax on profit

Recognised in the statement of comprehensive income

<i>Analysis of charge in year</i>	2019 €m	2018 €m
<i>UK corporation tax</i>		
Current tax charge for the year	(20)	(8)
Tax charge on profit before taxation	<u>(20)</u>	<u>(8)</u>

Reconciliation of standard tax rate

	2019 €m	2018 €m
Profit before taxation	148	13
Tax using UK corporation tax rate 19.0% (2018: 19.0%)	(28)	(2)
Expenses not deductible for tax purposes	8	(4)
Non-refundable withholding tax	-	(2)
Total tax expense	<u>(20)</u>	<u>(8)</u>

Factors that may affect future current and total tax charges

In the Summer 2015 Budget Statement this rate was reduced from 20% to 19% effective 1 April 2017, with a further reduction to 18% effective 1 April 2020, and In the March 2016 Budget Statement it was announced this rate would reduce from 18% to 17% effective 1 April 2020. All of these changes have been substantively enacted at the balance sheet date.

As a result of these changes, the effective current tax rate applicable for 2017 was 19.25% and the rate applicable for 2018 and 2019 was 19.0%. The rate applied to deferred tax balances is 17% as these balances are not expected to be utilised until after this rate takes effect.

In the Budget Statement on March 2020 the corporation rate tax was confirmed as 19% and the previously substantively enacted rate change to 17% from April 2020 was overwritten with this 19% tax rate. This change had not been substantively enacted as per these financial statements balance sheet date and has no impact on these financial statements.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. As the change had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Notes to the Financial Statements (*continued*)

10 Investments

	Loans to group undertakings €m	Shares in group undertakings €m	Total €m
Cost			
At beginning of year	692	609	1,301
Additions	115	-	-
Reductions	(663)	-	(548)
At end of year	144	609	753
Provisions			
At beginning of year	-	-	-
Impairment charge for the year*	-	(598)	(598)
At end of year	-	(598)	(598)
Net book value			
As at 31 December 2019	144	11	155
At 31 December 2018	692	609	1,301

*On 11 December 2019 the Company's immediately owned subsidiary, Akzo Nobel Finance (2) Limited, reduced its share capital by reducing the nominal value of each Ordinary Share from USD 1.00 to USD 0.000000001521. Following the reduction, the issued share capital of the subsidiary was 657,328,744 Ordinary Shares with a total value of USD 1.00. This has resulted in the impairment of the Company's investment in Akzo Nobel Finance (2) Limited which was debited to the Company's Statement of Comprehensive Income

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership	
			2019	2018
Akzo Nobel Finance (2) Limited	England and Wales	Ordinary	100%	100%

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee	Registration number	Public or private
Akzo Nobel Finance (2) Limited	The AkzoNobel Building, Wexham Road Slough United Kingdom SL2 5DS	Shares	9889324	Private

Notes to the Financial Statements *(continued)*

11 Debtors

	2019 €m	2018 €m
Amounts owed by group undertakings	1,134	1,210
Derivative financial instruments	3	3
	<u>1,137</u>	<u>1,213</u>
Due within one year	1,123	443
Due after more than one year	14	770
	<u>1,137</u>	<u>1,213</u>

Amounts owed by group undertakings due within one year include intercompany loans totalling €790,363,521 (2018: €379,259,402) the company has agreed to novate in 2020. Average interest is fixed at 2.86% (2018: 3.52%).

Amounts owed by group undertakings due after more than one year include intercompany loans totalling €14,463,924 (2018: €770,140,986) the company has agreed to novate in 2021. Average interest is fixed at 2.95% (2018: 3.45%).

Amounts owed by group undertakings include a balance of €320,507,432 (2018: €52,130,375) that is repayable on demand. Interest is accrued monthly based on 1-month LIBOR plus a spread of +15 / -10 basis points.

Remaining amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12 Creditors: amounts falling due within one year

	2019 €m	2018 €m
Amounts owed to group undertakings	(367)	(623)
Derivative financial instruments	(6)	(3)
Group relief payable	(32)	(14)
	<u>(405)</u>	<u>(640)</u>

Amounts owed to group undertakings includes unpaid interest of €2,341,000 (2018: €17,186,000) on intercompany loans.

Amounts owed to group undertakings includes intercompany loans totalling €365,000,000 (2018: €nil) maturing on 24 May 2023 but was repaid in 2020. Average interest is fixed at 3.0% (2018: 3.0%).

Equivalent consideration will be paid to fellow group companies to settle group relief balances.

2018 amounts owed to group undertakings includes intercompany loans totalling €606,118,850 which were settled as in 2019.

Remaining amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Financial Statements *(continued)*

13 Creditors: amounts falling due after more than one year

	2019	2018
	€m	€m
Amounts owed to group undertakings	-	(365)

Amounts owed to group undertakings included intercompany loans totalling €365,000,000 as of 31 December 2018 maturing on 24 May 2023. Average interest is fixed at 3.0% (2018: 3.0%). This loan was repaid early in 2020.

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, AkzoNobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income. The outstanding loan balance between the parties following the release is zero. This full loan balance amount has been classified as creditors' amounts due within one year.

14 Derivative financial instruments

The company has financial assets and liabilities measured at fair value through profit or loss. These have been disclosed as derivative financial instruments in Debtors and Creditors: amounts falling due within one year, in notes 11 and 12 respectively.

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency receivables. At 31 December 2019, the outstanding contracts all mature within 12 months (2018: 12 months) of the year end. The Company is committed to buy or sell in 25 (2018: 25) foreign currencies for a fixed Euro amount.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable outputs. The key assumptions used in valuing the derivatives are the exchange rates for Euro to 25 foreign currencies.

15 Called up share capital and Share Premium Account

	2019	2018
	€m	€m
<i>Authorised, allotted, issued and fully paid</i>		
1,467,335 (2018: 1,467,335) ordinary shares of €1 each	2	2

All share capital is classified as shareholders' funds. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 22 February 2018 the Company reduced its share capital by €154,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

Notes to the Financial Statements (*continued*)

16 Immediate and ultimate parent company

The immediate and ultimate parent company of the Company is Akzo Nobel N.V., a company incorporated in the Netherlands.

The only group in which the results of the Company are consolidated is that headed by the ultimate parent company, Akzo Nobel N.V..

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

17 Post Balance Sheet Event

On 6 January 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €175,000,000 against the 2A Loan of €365,000,000.

On 28 February 2020, the Company agreed to novate, via 14 separate deeds, intercompany loan receivables with book values at that date of €781,000,000. At that date the value of intercompany loan receivable balance was €917,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted before 31 December 2020 with the majority being transacted in March 2020.

On 27 May 2020, the Company agreed to novate, via 2 separate deeds, intercompany loan receivables with book values at that date of €68,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted before 31 December 2020.

On 9 September 2020, the Company agreed to novate, via 6 separate deeds, intercompany loan receivables with book values at that date of €47,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel N.V. The deeds were to be transacted from September 2020 to early 2021.

On 9 September 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay remaining €190,000,000 against the 2A Loan.

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its fellow group companies operate is uncertain at this time.

As of the signing date of these financial statement's management was not aware of any material adverse effects on the financial statements for the year ended December 31, 2019 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.