

Imperial Chemical Industries Limited

Annual Report and Financial Statements

Registered number 218019

31 December 2018

SATURDAY



A9HTM0SG

A15

14/11/2020

#41

COMPANIES HOUSE

Contents

	Page(s)
Strategic Report	1-3
Directors' Report	4-6
Independent auditors' report to the members of Imperial Chemical Industries Limited	7-8
Statement of Comprehensive Income	9
Balance sheet	10
Statement of changes in equity	11
Notes to the Financial Statements	12 - 47

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activities of the Company are the sale and distribution of decorative paints, and the provision of toll manufacturing services related to the AkzoNobel decorative paints business. The Company is also an investment holding company and manages legacy matters relating to former businesses and assets which were owned by the Company when it operated as a public limited company.

Business review

The Company made a profit before taxation for the financial year of £140m (2017: £163m) during the financial year and has net assets of £4,303m (2017: £4,256m) as at 31 December 2018.

The Company's business is part of the AkzoNobel Decorative Paints Europe & Africa Business Unit of the group headed by Akzo Nobel N.V. Full information on the strategy of the Business Unit can be found on pages 32 of the 2018 Annual Report and Accounts of the ultimate parent company Akzo Nobel N.V.. Copies may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

On 12 April 2018 the actuarial valuation funding deficit of the ICI Specialty Chemicals Pension Fund as at 31 March 2017 was agreed as £25.2 million, with an associated recovery plan of £6 million in March 2018 and £3 million per annum from 2019 to 2022 to be paid in January each year.

Post Balance Sheet Event

In March 2019 the actuarial valuation funding deficit of the ICI Pension Fund as at 31 March 2017 was agreed as £604 million, with an associated recovery plan of £125 million in January 2019 and £290 million in March 2019.

In May 2019 the Company divested of its former manufacturing site located in Slough for £66.5 million.

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

UK Paints Business

Overview

The ICI Paints business manufactures, distributes and sells directly a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself ("DIY") markets within the UK. The business operates under brands such as Dulux®, Dulux Trade®, Cuprinol®, Polycell®, Hammerite®, Armstead®, Sikkens® and International®. The Company prides itself on product innovation and continues to invest and bring new products to market.

Operational performance

In 2018, market conditions were challenging as consumer confidence remained low and higher levels of inflation continued. However, the company maintained its decorative paints market share and, as a result, revenue from sale of products increased by £2m. This was offset by a decrease of £12m in revenue from services including the Company's toll manufacturing activities. Raw material costs increased through 2018 and operating costs increased due to higher one off costs such as restructuring. This put additional pressure on the Company's financial performance and as a result, the Company recorded a reduced operating profit of £8m. Dividend and interest income were consistent with the previous year. Overall, profit before taxation was £140m compared with £163m in the previous year.

Strategic Report (*continued*)

Manufacturing

Further to the opening of a new manufacturing facility in September 2017 in Ashington, Northumberland, production was transferred from the Slough Manufacturing Unit on a phased basis over Q4 2017, with transfer of final volumes in Q1 2018.

Key Performance Indicators

The Company assesses business performance over many indicators; both stand alone and also as a key part of the Decorative Paints European Business Unit. Full analysis of this business unit is provided in the annual report of Akzo Nobel N.V. as indicated above. The standalone indicators are presented in the below table.

Indicator	2018	2017	Delta
Turnover from sale of product	£477m	£475m	£2m
Adjusted Profit before taxation ROS	27%	32%	(6)%

The results reflect the challenging market conditions and inflationary environment, but the Company maintained market share. The Company continues to drive operational excellence and strategy execution. Turnover includes both third parties and intercompany sales. Adjusted profit before tax return on sale (ROS) is calculated as profit before taxation excluding income from shares in group undertakings as a percentage of turnover from sale of products.

Further information on the Company's decorative paints business can be found at www.dulux.co.uk

Sustainability

Sustainability remains a key driver to the Company and also a key pillar in the overall strategy of the AkzoNobel Group. All of the Company's manufacturing sites are certified to International Standard ISO 14001 and the Company continues to hold the Carbon Trust Standard.

The Company continued to comply with the UK Government's mandatory Carbon Reduction Commitment scheme, reporting lower CO2 emissions in the year 2018/17 compared to 2017/16.

Strategic Report (continued)

Principal Key Risks and Uncertainties

Economy

The main risks and uncertainties relating to the business are a downturn in the UK economy, specifically in relation to reduction in consumer investment in home decoration and commercial construction projects. This uncertainty is heightened by the recent Referendum by the UK which resulted in a vote to leave the European Union. At present, the specific effects of Brexit are still being negotiated by the UK Government and the EU. Once the specifics of the deal are known, the Company is continuing to monitor and evaluate the impact this may have on the business and plan accordingly.

Post-retirement benefits

The Company is the principal employer of the ICI Pension Fund ("ICIPF") and the ICI Specialty Chemicals Pension Fund ("ISCPF"), two defined benefit pension schemes. Both are closed to new entrants. They are managed and controlled by independent trustees. The funded status of these schemes is affected by the trustees' investment decisions, market conditions, demographic experience and any regulatory actions. They both require additional funding (top up contributions) to address funding deficits determined in previous triennial funding valuations along with regular contributions at agreed rates. Changes in the funding deficits may adversely impact our business and results. AkzoNobel practices proactive pension risk management and continuously reviews options to reduce the financial risks associated with all defined benefit schemes. Further details of the schemes are in note 22.

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 Annual Report 2018, pages 131 to 132 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.

On behalf of the board



G. Brown
Director

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

13 November 2020

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

Results

Refer to the Strategic Report for the results for the year ended 31 December 2018.

Dividends

The directors did not pay an interim dividend during the year (2017: *£nil*), nor do the directors recommend the payment of a final dividend (2017: *£nil*).

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.

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

Directors

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

M. Smalley	
D. Turner	(resigned 1 September 2020)
J. Henderson	
N. Akay Kemahli	(appointed 1 September 2020)
M. Pullen	(resigned 31 May 2018)
W. Baines	(appointed 31 January 2018)
A. McAuley	(appointed 1 June 2018)
G. Brown	(appointed 10 June 2019)

Employees

The Company's policy is to consider all job applications by disabled persons sympathetically in relation to the duties, responsibilities and physical requirements of the vacancies, the aptitudes of the applicants, including the nature of the disability, the working environment and the facilities required for the effective performance of the job by the applicant. If any existing employee becomes disabled, the Company will examine any effects of the disability on current job performance and take all practicable steps to maintain the employees' continued employment through the provision of appropriate retraining, changes in working facilities or, with mutual agreement, the provision of alternative employment more closely related to the employees' capabilities. The Company will continue to identify and monitor the employment of Registered Disabled persons to determine its position in relation to the current statutory requirements.

Through the performance management process the training needs and career development of all employees are identified and discussed, and all employees are encouraged to have a development plan to ensure their skills and competences are continually improving.

Directors' Report (continued)

Employee involvement

The Company's policy is to consider all job applications by disabled persons sympathetically in relation to the duties, responsibilities and physical requirements of the vacancies, the aptitudes of the applicants, including the nature of the disability, the working environment and the facilities required for the effective performance of the job by the applicant. If any existing employee becomes disabled, the Company will examine any effects of the disability on current job performance and take all practicable steps to maintain the employees' continued employment through the provision of appropriate retraining, changes in working facilities or, with mutual agreement, the provision of alternative employment more closely related to the employees' capabilities. The Company will continue to identify and monitor the employment of Registered Disabled persons to determine its position in relation to the current statutory requirements.

Through the performance management process the training needs and career development of all employees are identified and discussed, and all employees are encouraged to have a development plan to ensure their skills and competences are continually improving.

Political contributions

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

Financial Risk Management

Refer to the Strategic Report for details on financial risk management.

Future Developments

The directors are of the opinion that the Company is in a position to continue its principal activities during 2019 and beyond.

Research and development

The Company carries out research and development in support of existing activities, specific new product development and the improvement of production processes of £1m (2017: £1m)

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;
- 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.

Directors' Report (continued)

Independent auditors

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

On behalf of the Board



Wendy Baines
Director

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

13 November 2020

Independent auditors' report to the members of Imperial Chemical Industries Limited

Report on the audit of the financial statements

Opinion

In our opinion, Imperial Chemical Industries Limited'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 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 2018; 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.

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.

Independent auditors' report to the members of Imperial Chemical Industries Limited (continued)

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 Directors' Responsibilities Statement set out on page 5, 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
13 November 2020

Statement of Comprehensive Income
for the year ended 31 December 2018

	<i>Note</i>	2018 £m	2017 £m
Turnover	4	519	529
Cost of sales		(384)	(385)
		<hr/>	<hr/>
Gross profit		135	144
Distribution costs		(80)	(91)
Administrative expenses		(47)	(27)
		<hr/>	<hr/>
Operating profit	5	8	26
		<hr/>	<hr/>
Income from shares in group undertakings	6	7	7
Other interest receivable and similar income	7	134	134
Interest payable and similar expenses	8	(9)	(4)
		<hr/>	<hr/>
Profit before taxation		140	163
Tax (charge)/credit on profit	11	(24)	19
		<hr/>	<hr/>
Profit for the financial year		116	182
		<hr/>	<hr/>
Other comprehensive (expense)/income			
Items that will not be reclassified to the statement of comprehensive income			
Remeasurements of defined benefit liability/asset	22	(76)	141
Income tax on items that will not be reclassified to the statement of comprehensive income	11	13	(25)
		<hr/>	<hr/>
Other comprehensive (expense)/income for the year, net of tax		(63)	116
		<hr/>	<hr/>
Total comprehensive income for the financial year		53	298
		<hr/>	<hr/>

Balance Sheet
at 31 December 2018

	<i>Note</i>	2018 £m	2017 £m
Fixed assets			
Tangible assets	12	198	232
Investments	13	3,792	3,792
Net defined benefit asset	22	381	322
		<hr/>	<hr/>
		4,371	4,346
Current assets			
Stocks	14	3	3
Debtors (including £2,500m due after one year (2017: £3,092m))	15	3,442	3,434
Cash at bank and in hand		-	1
Assets classified as held for sale	26	21	-
		<hr/>	<hr/>
		3,466	3,438
Creditors: amounts falling due within one year	16	(3,301)	(3,277)
Provisions (current)	17	(6)	(23)
Liabilities directly associated with assets classified as held for sale	26	(7)	-
		<hr/>	<hr/>
Net current assets		152	138
		<hr/>	<hr/>
Total assets less current liabilities		4,523	4,484
Creditors: amounts falling due after more than one year	18	(210)	(210)
Provisions for liabilities	17	(10)	(18)
		<hr/>	<hr/>
		(220)	(228)
		<hr/>	<hr/>
Net assets		4,303	4,256
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	20	1,209	1,209
Share premium account		940	940
Retained earnings		2,154	2,107
		<hr/>	<hr/>
Total shareholders' funds		4,303	4,256
		<hr/>	<hr/>

The notes on pages 12 to 47 are an integral part of these financial statements.

These financial statements on pages 9 to 47 were authorised for issue by the board of directors on 13 November 2020 and were signed on its behalf by:



M. Smalley
Director

Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital £m	Share Premium Account £m	Restated Retained earnings £m	Restated Total shareholders' funds £m
Balance at 1 January 2017	1,209	940	1,809	3,958
Profit for the financial year	-	-	182	182
Other comprehensive income or loss				
Remeasurements of defined benefit asset	-	-	141	141
Income tax on items that will not be reclassified to the statement of comprehensive income	-	-	(25)	(25)
Total comprehensive expense for the year	-	-	298	298
Balance at 31 December 2017	1,209	940	2,107	4,256

	Called up share Capital £m	Share Premium Account £m	Retained earnings £m	Total shareholders' funds £m
Balance at 1 January 2018	1,209	940	2,107	4,256
Impact of adoption of IFRS 15 (refer to note 2.15)	-	-	(6)	(6)
Restated balance at 1 January 2018	1,209	940	2,101	4,250
Profit for the financial year	-	-	116	116
Other comprehensive income or loss				
Remeasurements of defined benefit asset	-	-	(76)	(76)
Income tax on items that will not be reclassified to the statement of comprehensive income	-	-	13	13
Total comprehensive income for the year	-	-	53	53
Balance at 31 December 2018	1,209	940	2,154	4,303

Notes to the Financial Statements

1 General information

Imperial Chemical Industries Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the UK. The Company registration number is 218019 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 pounds sterling. 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 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 wholly owned 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

2.2 Measurement convention

The financial statements are prepared on the historical cost basis, except for net defined benefit asset/ (liability), which is measured at fair value of plan assets less the present value of the defined benefit plan obligation, as explained in Note 2.18.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

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.

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

2.4 *New standards, amendments and IFRIC interpretations*

In 2018 the most significant changes in accounting policies adopted by the Akzo Nobel Group relate to adoption of two new standards IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments". IFRS 9 had no material impact on the financial statements of the Company. The impact of IFRS 15 is explained in the note 2.15.

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 'Pounds Sterling' (£), 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 *Debtors*

Amounts receivable are amounts due from group companies and amounts due from customers for merchandise sold or 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.

IFRS 9 introduces a new impairment model, whereby recognition of an allowance for expected credit losses on financial assets is required, which deviates from the recognition of incurred credit losses under IAS 39. The new impairment model is applicable for debt instrument financial assets measured at amortized cost, for debt instrument financial assets measured at fair value through Other comprehensive income, for lease receivables, contract assets, loan commitments and certain financial guarantee contracts. The implementation of IFRS 9 has not led to a recognition of any additional impairment as at 1 January 2018.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.7 Creditors

Amounts payable are amounts due to group companies and obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.8 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.

2.9 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.

2.10 Tangible fixed assets

All tangible fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	30 - 40 years
Fixtures & Fittings	10 years
Plant and Equipment	3 - 10 years

As it is necessary to select a method of applying depreciation that results in the carrying amount of the asset being allocated as fairly as possible to the periods expected to benefit from the use of the asset, for large new plants above a threshold of £4m, depreciation for the first 2 years is calculated proportionate to planned production until the assets are fully operational. The remaining book value is depreciated in equal amounts during the remaining years of the originally expected economic life. This method reflects most closely the pattern in which the asset's economic benefits are expected to be consumed by the entity.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income..

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.11 Operating lease payments

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.12 Research and development expenditure

Expenditure on research and development is charged to the statement of comprehensive income in the year in which it is incurred.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. The weighted average cost method of valuation is used. In accordance with the contract manufacturing and distribution agreement effective from 1 October 2014, the economic risk associated with stocks used by the Company remains with AkzoNobel and as a result stocks have been excluded from the balance sheet. The inventories recorded on the balance sheet are spare parts for use in the manufacturing process, and in the execution of colour mixing.

2.14 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.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

2.15 Turnover

IFRS 15 "Revenue from Contracts with customers"

IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. New qualitative and quantitative disclosures are also required.

Akzo Nobel adopted this new standard as from January 1, 2018, applying the modified retrospective approach only to contracts that were not completed on January 1, 2018 without restatement of its 2017 comparative figures.

Equipment provided to customers

Akzo Nobel regularly provides mixing machines, store interior and other assets to its customers at the start of a paint delivery contract. Previously, such assets were not treated as a separate performance obligation and their costs were expensed during the contract period.

Under IFRS 15, the delivery of such assets qualifies as a separate performance obligation. However, in most cases no revenue can be recognised at the moment of transfer of such assets.

The net book value at 31 December 2017 of such assets amounted to £6.9m and was written-off, which had an after tax effect of £5.8m, which has been taken to opening reserve.

Sale of goods

The Company's Business consists of selling paints and ancillary products to customers at contractually determined prices and conditions without any additional services. Although the transfer of the risks and rewards is not the only criterion to be considered to determine whether control over the goods has transferred, it is in most situations considered to be the main indicator of the customer's ability to direct the use of and obtain benefits from the asset and largely also coincides with the physical transfer of the goods and the obligation of the customer to pay.

Variable consideration, including among others rebates, bonuses, discounts and payments to customers are accrued for as performance obligations are satisfied and revenue is recognised. Variable considerations are only recognised when it is highly probable that it is not subject to significant reversal. In case of expected returns, no revenue is recognised for such products, but a refund liability and an asset for the right to recover them to be returned products are recorded.

A provision for warranties is recognised when the underlying products or services are sold, generally based on historical warranty data. Revenue is recognised net of rebates, discounts and similar allowances, and net of sales tax. No adjustment related to services was needed.

Services

Operating lease income is recognised in line with the benefit from the use of the underlying assets that are diminished.

The Company is involved in toll manufacturing services for which it earns a fixed return on production costs incurred.

2.16 Interest income

Interest income 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.

2.17 Dividend income

Dividend income is recognised when the right to receive payment is established.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

2.18 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.

Defined benefit plans

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

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

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

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the statement of comprehensive income when the plan amendment or curtailment occurs.

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

The Company is the sponsoring employer of group wide defined benefit pension plans. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plans to participating entities, the net defined benefit cost of the pension plans is recognised fully by the sponsoring employer, which is the Company. The contributions payable in respect of active members by the participating entities are determined following each triennial valuation conducted by a qualified independent actuary, and charged as a percentage of salary costs. The Company recognises non sponsoring entity contributions in its statement of comprehensive income, as a net deduction against the defined benefit pension plan costs. If non sponsoring entity contributions exceed the current service cost, the excess of contributions over current service cost, are recorded in other comprehensive income.

As the Company has an unconditional right to any surplus of the scheme it recognises an asset as the amount of the surplus at the balance sheet that it has the right to receive as a refund. This is the fair value of the plan assets less the present value of the defined benefit obligation.

2.19 Non-derivative financial instruments

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Notes to the Financial Statements (*continued*)

2 Accounting policies (*continued*)

Trade and other debtors

Trade and other receivables are amounts due from customers for merchandise sold or 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.

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

Trade and other creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

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) Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

(b) Impairment of debtors and recoverability

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

(c) Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. The benefits of these pension plans are based primarily on years of service and final pensionable pay.

(d) Impairment of investments

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

Notes to the Financial Statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

(e) Deferred tax assets

When assessing the recoverability of deferred tax assets, the Company considers future taxable profits and cash flow forecasts. These forecasts are estimated and inherently uncertain.

3.2 Critical judgements in applying the entity's accounting policies

(a) Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the region. In the judgment of the directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore, the scheme is accounted for a defined contribution scheme.

Notes to the Financial Statements *(continued)*

4 Turnover

The majority of the Company's business operations are within one business segment, Decorative Paints and one geographic segment, the UK. Therefore, the profit and loss account reports the segmental information of the Company.

	2018 £m	2017 £m
Sale of goods	477	475
Rendering of services	42	54
	<u>519</u>	<u>529</u>

Equipment provided to customers

The company provides mixing machines, store interior and other assets to its customers at the start of a paint delivery contract. Previously, such assets were not treated as a separate performance obligation and their costs were expensed during the contract period.

Under IFRS 15, the delivery of such assets qualifies as a separate performance obligation. However, in most cases no revenue can be recognised at the moment of transfer of such assets.

The net book value at 31 December 2017 of such assets amounted to £6.9m and was written-off as an opening adjustment to the reserves with no change to the comparative.

5 Operating Profit

Operating profit is stated after charging:

	2018 £m	2017 £m
Wages and salaries	43	43
Social security costs	7	7
Other Pension costs	20	19
Staff Costs	<u>70</u>	<u>69</u>
Restructuring costs	5	7
Operating lease expenses	2	2
Past service cost on defined benefit pension scheme (Note 22)	19	2
	<u>93</u>	<u>72</u>
	2018 £000	2017 £000
Audit fees payable to the Company's auditors	93	72

In 2018, past service costs were incurred in the ICI Pension Fund ("ICIPF") and the ICI Specialty Chemicals Pension Fund ("ISCPF") schemes to retrospectively equalise Guaranteed Minimum Pensions ('GMPs') for men and women resulting in a charge of £13m. In addition, past service costs of £6m (2017: £2m) were incurred in relation to early retirements in ICIPF.

Notes to the Financial Statements *(continued)*

6 Income from shares in group undertakings

	2018 £m	2017 £m
Income from shares in group undertakings	7	7

7 Other interest receivable and similar income

	2018 £m	2017 £m
Interest receivable from group undertakings	124	124
Net financing credit on post-employment benefit	10	4
Net exchange gains	-	6
	<u>134</u>	<u>134</u>

8 Interest payable and similar expenses

	2018 £m	2017 £m
Interest payable to group undertakings	(5)	(4)
Net exchange losses	(4)	-
	<u>(9)</u>	<u>(4)</u>

9 Directors and employees

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

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

	2018 £000	2017 £000
Aggregate Directors' emoluments paid by the Company	1,365	478
Amounts receivable under long term incentive schemes	688	45
Company contributions to money purchase pension schemes	107	90
Company contributions to final salary pension schemes	70	-

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

	2018 £000	2017 £000
Aggregate Directors' emoluments paid by other Group Companies	237	306
Amounts receivable under long term incentive schemes	48	31
Company contributions to money purchase pension schemes	-	53

Notes to the Financial Statements *(continued)*

9 Directors and employees *(continued)*

The following includes all Directors:

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under: Money purchase schemes	4	4
	<hr/>	<hr/>
The number of directors in respect of whose services, shares in the ultimate parent company were received or receivable under long term incentive schemes	4	3
	<hr/>	<hr/>

Highest paid director

The highest paid director's emoluments were as follows:

	2018 £000	2017 £000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	541	315
Money purchase schemes	34	56
	<hr/>	<hr/>

10 Staff numbers

The average monthly number of persons employed by the Company (including executive directors) during the year was 701 (2017: 879), analysed as follows:

	2018	2017
Production	213	261
Sales and distribution	156	211
Administration	185	246
Research and development	147	161
	<hr/>	<hr/>
	701	879
	<hr/>	<hr/>

During the year restructuring related severance costs of £5m (2017: £7m) were recorded equally in administrative and distribution expenses.

Notes to the Financial Statements *(continued)*

11 Tax on profit

Recognised in the statement of comprehensive income

<i>Analysis of charge /(credit) in year</i>	2018 £m	2017 £m
<i>UK corporation tax</i>		
Current tax charge for the year	1	13
	<u>1</u>	<u>13</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	23	25
Recognition of deferred tax asset	-	(57)
	<u>23</u>	<u>(32)</u>
Total deferred tax charge /(credit)	<u>24</u>	<u>(19)</u>
Tax charge /(credit) on profit		

Income tax recognised in other comprehensive income

	2018 £m	2017 £m
Remeasurements of defined benefit asset	(13)	25
	<u>(13)</u>	<u>25</u>
Tax (credit) /charge on other comprehensive income		

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit before taxation	140	163
Tax using UK corporation tax rate 19% (2017: 19.25%)	27	31
Income not taxable – dividend income	(1)	(1)
Origination/reversal of timing differences	(2)	-
Recognition of previously unrecognised tax losses	-	(57)
UK to UK transfer pricing adjustment	-	12
Reduction in tax rate	-	(4)
	<u>24</u>	<u>(19)</u>
Total tax charge /(credit)		

Notes to the Financial Statements (*continued*)

11 Tax on profit (*continued*)

Franked Investment Income Litigation

The Company is a member of a group litigation in the UK, known as the Franked Investment Income Group Litigation Order ("GLO"), against HMRC. The GLO collects claims made by 25 corporate groups in the UK High Court seeking the repayment of advance corporation tax ("ACT") and tax on dividend income on the basis that its levy by the UK was contrary to EU law. The Company's claim covers the period 1975 to 1997 and both the Company's claim and the GLO commenced in 2003. A test case was selected from the members of the GLO to proceed to trial on a representative basis; this test case was not the Company's claim.

Following issuance of guidance in December 2006 by the European Court of Justice ("ECJ"), the UK High Court in November 2008 found in favour of the claimants on certain key aspects of the claim. The judgement concluded, *inter alia*, that dividends received from EU subsidiaries should be, and should always have been, effectively exempt from UK taxation. It also concluded that certain dividends received from EU subsidiaries before 5 April 1999 and, in some limited circumstances, after 1993 from outside the EU, should have been treated as franked investment income, with the consequence that ACT need not have been paid. The judgement was appealed by HMRC. Following this UK High Court judgement, the Company, along with other members of the GLO, applied for and received in August 2009 an interim payment of approximately £64m, made up of interest and reclaimed ACT.

The appeal was heard by the Court of Appeal in October 2009 and the judgement was given in February 2010 mainly in favour of HMRC, following which HMRC appealed against the payments of interim payment awards. Those appeals by HMRC were dismissed by the Court of Appeal in January 2012. The judgement restricted claims retrospectively to tax paid within 6 years of the issue of the claim and not cover claims dating back to 1973. The Company's claim however included sufficient payments of tax within that period which would still have been regarded as unlawful under the High Court's judgment. Accordingly, the Company retained the interim payment on the grounds that its claim could be restructured such that a similar interim payment would be due to the Company.

The issue of the six year time limit was heard by the UK Supreme Court in February 2012 and, in May 2012, decided in favour of the principal test claimant. Therefore claims submitted before 8 September 2003, (including the Company's) could extend back as far as 1973.

The Court of Appeal February 2010 judgement also determined that various questions should be referred back to the ECJ for further clarification, and this took place in February 2012. An ECJ judgement was made in November 2012 which confirmed that the UK treatment of EU dividends was discriminatory. The judgement includes third country dividends from 1994 in certain circumstances; it also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

The case then reverted to the UK High Court to apply the November 2012 ECJ judgement with the trial held in May and June 2014. The UK High Court issued its rulings in December 2014 generally in the favour of the test claimant, however the case was then immediately appealed to the Court of Appeal which was heard in June 2016. The judgment of the Court of Appeal, which was generally in favour of the test claimant, was delivered on 24 November 2016. Permission was granted to appeal the Court of Appeal decision to the Supreme Court. Submissions for this appeal were split into two parts. The first part, which was heard in February 2020, addressed HMRC's argument that claims should be limited to tax paid in the 6 years prior to the claim being issued. Judgment on this point is awaited. Submissions on the remainder of the issues have been listed for 7 to 10 December 2020, with judgment expected by around April 2021. The final court ruling will be based upon the case of the test claimant. At this point, the Company's claim would need to be reviewed and tested by HMRC. The specific facts of the Company's claim may be different from the test claimant.

In November 2015 a separate claim issued by the Company in respect of Foreign Income Dividends was heard by the High Court. The judgment (which was favourable to the Company) was issued in January 2016 and HMRC made additional tax repayments of £8.7m less the new 45% restitution interest tax, resulting in a cash repayment of £4.8m. This income is reflected in these statutory accounts. An appeal has been issued to HMRC in respect of the restitution interest tax charge.

Notes to the Financial Statements *(continued)*

11 Tax on profit *(continued)*

Given the continuing complexity of the case and the uncertainty over the issues raised, it is not possible to predict the final outcome of the litigation with a reasonable degree of certainty or to reliably quantify its impact. As a result, except as mentioned above, no further tax income can currently be recognised.

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 2016 was 20% and the rate applicable for 2017 was 19.25%. 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 over written 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.

12 Tangible assets

	Land and buildings £m	Plant and Machinery £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At beginning of year	50	414	11	475
Additions	-	-	8	8
Disposals	-	-	-	-
IFRS 15 Adjustment*	-	(12)	-	(12)
Transfer of assets into use	3	6	(9)	-
Reclassified as held for sale	(24)	-	-	(24)
At end of year	29	408	10	447
Accumulated Depreciation				
At beginning of year	(13)	(230)	-	(243)
Disposals	-	-	-	-
IFRS 15 Adjustment*	-	5	-	5
Charge for year	(1)	(13)	-	(14)
Reclassified as held for sale	3	-	-	3
At end of year	(11)	(238)	-	(249)
Net book value				
At 31 December 2018	18	170	10	198
At 31 December 2017	37	184	11	232

Notes to the Financial Statements *(continued)*

12 Tangible assets *(continued)*

Some fixed assets in land and buildings and plant and machinery within the toll manufacturing activities are accounted for as being leased.

* Akzo Nobel regularly provides mixing machines, store interior and other assets to its customers at the start of a paint delivery contract. Previously, such assets were not treated as a separate performance obligation and their costs were expensed during the contract period.

Under IFRS 15, the delivery of such assets qualifies as a separate performance obligation. However, in most cases no revenue can be recognised at the moment of transfer of such assets.

The net book value at 31 December 2017 of such assets amounted to £6.9m and was written-off.

The net book value of land and buildings comprises:

	2018 £m	2017 £m
Freehold	7	34

13 Investments

	Shares £m	Total £m
Cost		
At beginning of year	3,902	3,902
Disposals	-	-
At end of year	3,902	3,902
Provisions		
At beginning of year	(110)	(110)
At end of year	(110)	(110)
Net book value		
At 31 December 2018	3,792	3,792
At 31 December 2017	3,792	3,792

Shares in directly held subsidiary undertakings which are listed investments have a balance sheet value of £28m (2017: £28m) and a market value at 31 December 2018 of £452m (2017: £489m).

The companies, in which the Company's interest at 31 December 2018 is more than 20%, are disclosed in note 23.

Notes to the Financial Statements *(continued)*

14 Stocks

	2018 £m	2017 £m
Finished goods and goods for resale	3	3

Value of stock expensed in cost of sales in the year was £353,860,000 (2017: £363,991,000).

15 Debtors

	2018 £m	2017 £m
Amounts owed by group undertakings: due in less than one year	904	307
Amounts owed by group undertakings: due in greater than one year	2,500	3,085
Trade debtors	26	22
Other debtors	10	10
Deferred tax assets due after more than one year <i>(see note 19)</i>	-	7
Prepayments and accrued income	2	3
	<u>3,442</u>	<u>3,434</u>
Due within one year	942	342
Due after more than one year	2,500	3,092
	<u>3,442</u>	<u>3,434</u>

Amounts owed by group undertakings due within one year include a balance of £114,051,000 (2017: £122,158,000) that is repayable on demand. Interest is charged monthly based on 1 month LIBOR plus a spread of +5/-10 basis points.

Amounts owed by group undertakings due in less than one year include intercompany loans of £585,500,000 (2017: £nil) maturing on 30 September 2019. Interest is fixed at 6.0% (2017: nil%).

Amounts owed by group undertakings due after more than one year include intercompany loans of £2,500,000,000 (2017: £3,085,500,000) maturing on 15 August 2025. Average interest is fixed at 3.50% (2017: 3.97%).

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

16 Creditors: amounts falling due within one year

	2018 £m	2017 £m
Trade creditors	24	32
Amounts owed to group undertakings	3,227	3,197
Other creditors	34	31
Group relief	16	17
	<u>3,301</u>	<u>3,277</u>

Notes to the Financial Statements *(continued)*

16 Creditors: amounts falling due within one year (continued)

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

Group relief will be paid to fellow group companies for equivalent consideration.

17 Provisions for liabilities

	Post retirement and benefit provisions £m	Restructuring provisions £m	Environmental provisions £m	Other provisions £m	Total £m
At beginning of year	12	13	7	9	41
Statement of comprehensive income	-	5	-	-	5
Utilised during year	(1)	(16)	-	(6)	(23)
Reclassified as held for sale	-	-	(7)	-	(7)
At end of year	11	2	-	3	16
Current	1	2	-	3	6
Non-current	10	-	-	-	10
	11	2	-	3	16

Post retirement and benefit provisions

Provisions relate to the defined benefit obligations related to unfunded pension plans. Refer to note 22.

Restructuring provisions

The Company provided £5m (2017: £7m) in relation to employee costs associated with restructuring activities during the year within the Decorative paints business. It is expected the majority of this provision will be used in 2019.

Other Provisions

These include provisions for surplus real estate leases plus other operational liabilities and are expected to be used during 2019.

18 Creditors: amounts falling due after one year

	2018 £m	2017 £m
Amounts owed to group undertakings	(210)	(210)
	(210)	(210)

Amounts owed to group undertakings include a loan of £210,000,000 maturing on 15 August 2025. Interest is fixed at 2.06% (2017: £210 million).

Notes to the Financial Statements (continued)

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £m	2017 £m	Liabilities 2018 £000	2017 £000	Net 2018 £000	2017 £000
Tangible fixed assets	35	35	-	-	35	35
Employee benefits	-	-	(61)	(52)	(61)	(52)
Provisions	3	3	-	-	3	3
Tax value of loss carry-forwards	21	21	-	-	21	21
	<u>59</u>	<u>59</u>	<u>(61)</u>	<u>(52)</u>	<u>(2)</u>	<u>7</u>

Movement in deferred tax during the year

	1 January 2018 £m	Recognised in Income £m	Recognised in OCI £m	31 December 2018 £m
Tangible fixed assets	35	(1)	-	34
Employee benefits	(52)	(22)	13	(61)
Provisions	3	-	-	3
Tax value of loss carry-forwards	21	-	-	21
Impact of IFRS 15	1	-	-	1
	<u>8</u>	<u>(23)</u>	<u>13</u>	<u>(2)</u>

Movement in deferred tax during the prior year

	1 January 2017 £m	Restated Recognised in Income £m	Restated Recognised in OCI £m	31 December 2017 £m
Tangible fixed assets	-	35	-	35
Employee benefits	-	(27)	(25)	(52)
Provisions	-	3	-	3
Tax value of loss carry-forwards	-	21	-	21
	<u>-</u>	<u>32</u>	<u>(25)</u>	<u>7</u>

Notes to the Financial Statements *(continued)*

19 Deferred tax assets and liabilities *(continued)*

Deferred tax assets are only recognised on losses to the extent that future probable taxable profits will be available against which the deferred tax asset can be utilised. In 2017, based upon future profit forecasts of the Company, deferred tax asset was recognised on gross cumulative tax losses of £121,305,541.

	2018 £m	2017 £m
Losses carried forward	121	121
Fixed assets	-	-
Restructuring provisions/business provisions/other	-	-
	<u>121</u>	<u>121</u>
Equivalent Deferred Tax Asset value	<u>21</u>	<u>21</u>

The Company also has unrecognised capital losses of approximately £716m which can only be utilised for certain capital transactions. Any future taxable capital gain, should it fulfil the applicable tax criteria, will be covered by these capital losses, subject also to the restriction as provided in Schedule 4, Finance Act 2020 (losses restricted to 50% of chargeable gain in respect of disposals after 1 April 2020).

20 Called up share capital

	2018 £m	2017 £m
<i>Authorised, allotted, called up and fully paid</i>		
1,209,327,168 (2017: 1,209,327,168) ordinary shares of £1 each	<u>1,209</u>	<u>1,209</u>

All share capital is classified as shareholders' funds. There has been no movement in the number of shares in the current year. 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.

21 Capital and other commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2018 £m	2017 £m
Authorised and contracted for	<u>1</u>	<u>1</u>

Notes to the Financial Statements *(continued)*

21 Capital and other commitments *(continued)*

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £m	2017 £m
Not later than one year	1	1
Later than one year and not later than five years	3	3
	<hr/>	<hr/>
	4	4
	<hr/>	<hr/>

22 Post-retirement benefit provisions

Post-retirement benefit provisions relate to defined benefit pension and other post-retirement benefit plans, the latter comprising a healthcare plan. The largest pension plans are the two funded plans - the ICI Pension Fund ("ICIPF") and the ICI Specialty Chemicals Pension Fund ("ISCPF") which account for 94.0 percent and 5.9 percent of defined benefit obligations (DBO) respectively and 93.8 percent and 6.2 percent of plan assets of the Company, respectively. There are also some smaller, unfunded pension plans included. The benefits of the pension plans are based primarily on years of service and final pensionable pay. The funding policy for the plans is consistent with local requirements in the United Kingdom.

Valuations of the obligations under the plans are carried out regularly by independent qualified actuaries. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees. Governance of the benefit plans is the responsibility of AkzoNobel's Executive Committee Pensions "The Committee". The Committee provides oversight of the costs and risks of the plans including oversight of the impact of the plans on AkzoNobel in terms of cash flow, pension expenses and the balance sheet. The Committee also develops and maintains policies on benefit design, funding, asset allocation and assumption setting.

Pension plans

The ICIPF and ISCPF plans were both closed to new members in 2001, although long-serving employees continue to accrue benefits. Other employees are eligible to join a defined contribution arrangement named the Akzo Nobel Benefit Builder Scheme. Unless mandated by law, it is AkzoNobel's policy that any new plans are established as defined contribution plans.

The most significant risks that AkzoNobel runs in relation to defined benefit plans are that investment returns fall short of expectations, low discount rates, that inflation exceeds expectations, and that retirees live longer than expected.

The assets and liabilities of each of the funded plans are held outside of the Company in a trust or a foundation, which is governed by a board of fiduciaries or trustees. The ICIPF uses a corporate trustee, ICI Pensions Trustee Limited, a company which is owned by The Law Debenture Trust Corporation PLC and the ISCPF uses a corporate trustee, ICI Specialty Chemicals Pensions Trustee Limited, a company which is also owned by The Law Debenture Trust Corporation PLC. Both are professional trustee companies which are entirely independent from the Company and its parent. The primary objective with regard to the investment of pension plan assets is to ensure that each individual plan has sufficient funds available to satisfy future benefit obligations in accordance with local legal and legislative requirements. For this purpose, AkzoNobel works closely with plan trustees or fiduciaries to develop investment strategies. Studies are carried out periodically to analyze and understand the trade-off between expected investment returns, volatility of outcomes and the impact on cash contributions. The aim is to strike a cautious balance between these factors in order to agree affordable contribution schedules with plan fiduciaries. Plan assets principally consist

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Pension plans *(continued)*

of buy-in annuity policies, long-term interest-earning investments and (investment funds with holdings primarily in) quoted equity securities. Derivatives (such as index futures, currency forward contracts and swaps) are used to reduce volatility of underlying variables, for efficient portfolio management and to improve the liability matching characteristics of the assets. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund's investment strategy.

In line with AkzoNobel's proactive pension risk management strategy, we seek to reduce risk in our pension plans over time. We continue to evaluate different potential de-risking strategies and opportunities on an ongoing basis. Some future de-risking transactions may have both cash flow and balance sheet impacts which may be substantial, as have some of the de-risking actions already taken. The cost of fully removing risk would exceed estimated funding deficits.

Between 2014 and 2018, ICIPF and ISCPF have invested in annuity buy-in contracts that aim to hedge all key risks related to their pensioner populations. In 2018, the Trustee of the ICIPF entered into a further annuity buy-in agreement with Legal and General Assurance Society Limited and the Trustee of the ISCPF entered into a further annuity buy-in agreement with Pension Insurance Corporation PLC. Together they cover, in aggregate, £138 million of pensioner liabilities (local plan value). The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to ICIPF and ISCPF amounts equivalent to the benefits payable to members who have recently become pensioners. The pension liabilities remain with, and the matching annuity policies are held within, ICIPF and ISCPF. The accounting impact of the transactions is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £28 million. By purchasing bulk annuities, the ICIPF and ISCPF Trustees have both taken significant steps in actively de-risking liabilities and reducing the risk that AkzoNobel will be required to contribute additional cash in the future.

In October 2018, the UK High Court provided clarity for trustees and employers on providing equal pension benefits for men and women where they are in receipt of Guaranteed Minimum Pensions ('GMPs') as a result of the Lloyds Banking Group judgment. According to this, pension schemes must retrospectively equalise GMPs by uplifting pensions to the same level, as far as needed, for men and women. As a result, a past service cost of £13 million has been charged across the Company pension schemes in 2018.

The remaining pension plans comprise a number of unfunded pension schemes and the defined contribution arrangement named the Akzo Nobel Benefit Builder Scheme which provides benefits based on contributions made. The expenses of defined contribution plans in the Company equal to the Company contributions paid totalled £6 million in 2018 (2017: £6 million).

Other post-retirement benefit plans

The Company provides unfunded healthcare benefits for eligible, retired employees from retirement date until the age of sixty five through a scheme operated by a healthcare insurer for the Company's employees in the UK. During 2018, 124 retired employees were beneficiaries of the scheme (2017: 131). The plan exposes the Company to the risk of a further decline in discount rates, which would increase the plan obligations.

The following table details the annual movements for the total post-retirement benefit provisions. The closing net balance sheet provision of £370 million net asset (2017: £310 million net asset) comprises: Pension plans £372 million net asset (2017: £312 million net asset) and Other post-retirement benefit plan £(2) million net liability (2017: £(2) million net liability).

Notes to the Financial Statements (continued)

22 Post-retirement benefit provisions (continued)

Reconciliation balance sheet

	2018			2017		
	£m	£m	£m	£m	£m	£m
	DBO	Plan assets	Total	DBO	Plan assets	Total
Balance at the beginning of the year	(8,765)	9,075	310	(9,396)	9,398	2
Statement of comprehensive income						
Current service cost	(5)	-	(5)	(7)	-	(7)
Past service cost	(19)	-	(19)	(2)	-	(2)
Non Sponsoring entity contributions	1	-	1	-	2	2
Net interest (charge)/income on net defined benefit (liability)/asset	(206)	216	10	(225)	229	4
Income recognised in statement of comprehensive (expense)/income	(229)	216	(13)	(234)	231	(3)
Remeasurements						
Actuarial (loss)/gain due to liability experience	(36)	-	(36)	183	-	183
Actuarial gain due to liability financial assumption changes	245	-	245	12	-	12
Actuarial gain due to liability demographic assumption changes	53	-	53	73	-	73
Actuarial loss due to buy-ins	-	(28)	(28)	-	(67)	(67)
Return on plan assets (less) than discount rate	-	(305)	(305)	-	(55)	(55)
Remeasurement effects recognised in other comprehensive (expense)/income	262	(333)	(71)	268	(122)	146
Cash flow						
Employer contributions	-	145	145	-	167	167
Non Sponsoring entity contributions	-	(1)	(1)	-	(2)	(2)
Benefits and administration costs paid from plan assets	604	(604)	-	597	(597)	-
Net cash flow	604	(460)	144	597	(432)	165
Balance at the end of the year	(8,128)	8,498	370	(8,765)	9,075	310

	2018	2017
	£m	£m
In the balance sheet under		
Fixed assets: Net defined benefit asset	381	322
Post-retirement benefit provisions	(10)	(11)
Current portion of provisions	(1)	(1)
Net balance sheet provision	370	310

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

The expenses of the funds are borne directly by AkzoNobel. Administration expenses are expensed as incurred and charged to Operating income. Administration expenses in 2018 totalled £9 million (2017: £11 million). In addition, directly incurred asset management expenses in 2018 totalled £5 million (2017: £5 million) and have been included in Other comprehensive income.

DBO at funded and unfunded pension plans

	2018	2017
	£m	£m
Wholly or partly funded plans	8,117	8,753
Unfunded plans	11	12
Total	8,128	8,765

Interest costs on DBO for both pensions and other post-retirement benefits together with the interest income on plan assets comprise the net financing credit on post-retirement benefits of £11 million (2017: £4 million), see Note 7.

Plan assets

	2018		2017	
	£m	Percentage of total	£m	Percentage of total
Equities	-	-	-	-
Debt – fixed interest government bonds	382	4	359	4
Debt – index-linked government bonds	761	9	934	10
Debt – corporate and other bonds	-	-	-	-
Buy-in annuity policies	6,730	79	7,119	78
Cash and cash equivalents	134	2	79	1
Other	491	6	584	7
Total	8,498	100	9,075	100

The equities and government bond debt assets in the table above have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. The UK buy-in annuity policies are unquoted plan assets. The other categories of plan assets include certain assets that are not quoted in active markets. Such unquoted securities totalled £28 million (2017: £39 million) have decreased due to changed investment allocations by the trustees. Unquoted plan assets include investments in infrastructure. Plan assets did not directly include any of AkzoNobel's own transferable financial instruments, nor any property occupied by or assets used by the Company.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Plan assets *(continued)*

Pension balances recorded under Fixed Assets: Net defined benefit asset totalled £381 million (2017: £322 million). The increase in 2018 was primarily due to £131 million of top-up pension contributions and £(71) million of net actuarial losses in the relevant plans. These assets could be recognized under IFRIC 14 because economic benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

Cash flows

In 2019, we expect to contribute £430 million (2018 actual: £144 million) to our defined benefit plans. This includes £12 million (2018 actual: £13 million) of regular contributions and £418 million (2018 actual: £131 million) for top-up pension contributions. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities.

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

Future benefit payments

	Pensions	Other post-retirement benefits
	£m	£m
2019	606	-
2020	606	-
2021	606	-
2022	606	-
2023	606	-
2024-2028	3,024	1

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Key figures and assumptions by plan

2018

	ICIPF UK £m	ISCPF UK £m	Other pension plans £m	Other post- retirement benefits £m	Total £m
Percentage of total DBO	94%	6%	-	-	100%
Defined Benefit Obligation	(7,638)	(479)	(9)	(2)	(8,128)
Fair value of plan assets	7,969	529	-	-	8,498
Plan funded status	331	50	(9)	(2)	370
Amounts recognised on the balance sheet	331	50	(9)	(2)	370
Percentage of total current service cost	85%	15%	-	-	100%
Current service cost	4	1	-	-	5
Employer contributions	136	7	1	-	144
Discount rate	2.7%	2.8%	2.8%	2.8%	2.7%
Rate of compensation increase	1.5%	1.4%	-	-	1.5%
Inflation	3.2%	3.2%	3.2%	-	3.2%
Pension increases	3.0%	3.0%	3.0%	-	3.0%
Healthcare cost trend rate for next year	-	-	-	6.3%	6.3%
Rate to which cost trend rate is assumed to decline	-	-	-	6.3%	6.3%
Life expectancy (in years)					
Currently aged 60					
Males	26.7	27.2	26.8	26.7	26.7
Females	28.2	28.9	29.1	28.2	28.2
Currently aged 45, from age 60					
Males	27.8	28.3	28.0	27.8	27.8
Females	29.5	30.1	30.4	29.5	29.5

Notes to the Financial Statements (continued)

22 Post-retirement benefit provisions (continued)

Key figures and assumptions by plan (continued)

2017

	ICIPF UK £m	ISCPF UK £m	Other pension plans £m	Other post- retirement benefits £m	Total £m
Percentage of total DBO	94%	6%	-	-	100%
Defined Benefit Obligation	(8,243)	(510)	(10)	(2)	(8,765)
Fair value of plan assets	8,518	557	-	-	9,075
Plan funded status	275	47	(10)	(2)	310
Amounts recognised on the balance sheet	275	47	(10)	(2)	310
Percentage of total current service cost	89%	11%	-	-	100%
Current service cost	6	1	-	-	7
Employer contributions	159	7	1	-	167
Discount rate	2.4%	2.5%	2.6%	2.6%	2.4%
Rate of compensation increase	1.4%	1.4%	-	-	1.4%
Inflation	3.2%	3.2%	3.2%	-	3.2%
Pension increases	3.0%	3.0%	3.0%	-	3.0%
Healthcare cost trend rate for next year	-	-	-	6.3%	6.3%
Rate to which cost trend rate is assumed to decline	-	-	-	6.3%	6.3%
Life expectancy (in years)					
Currently aged 60					
Males	26.8	27.4	26.8	-	26.8
Females	28.3	29.0	29.1	-	28.3
Currently aged 45, from age 60					
Males	28.0	28.5	27.9	27.9	28.0
Females	29.5	30.2	30.3	30.3	29.5

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Sensitivity of DBO to change in assumptions

	ICIPF UK £m	ISCPF UK £m	Other pension plans £m	Other post- retirement benefits £m	Total £m
Discount rate: 0.5% decrease	474	43	-	-	517
Price inflation: 0.5% increase [^]	254	24	-	-	278
Life expectancy: one year increase from age 60	510	21	1	-	532
Maturity information					
Weighted average duration of DBO (years)	12.4	17.6	8.9	6.8	12.7

[^] The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

The sensitivity effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for each plan. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent our view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-retirement defined benefit plans are not reflected in this analysis, as they would normally be reflected in plan asset changes rather than DBO changes.

The sensitivities in the table only apply to the DBO and not to the net amounts recognized in the balance sheet. Movements in the fair value of plan assets (which include the de-risking instruments) would, to a significant extent, be expected to offset movements in the DBO resulting from changes in the given assumptions. The annuity buy-in contracts cover approximately 99 percent of pensioner liabilities (2017: 99 percent) and 83 percent of total liabilities at ICIPF (2017: 82 percent) and 99 percent of pensioner liabilities (2017: 97 percent) and 66 percent (2017: 62 percent) of total liabilities at ISCPF.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions (continued)

Key plan details of the largest two pension plans

	ICI Pension Fund, UK
Type of plan	Defined benefit, based upon years of service and final salary
Benefits	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement
Pension increases (main benefit section)	Annually linked to UK RPI with a maximum of 5 percent
Plan structure	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Five member-nominated trustees Five appointed with the agreement of Law Debenture One independent (Law Debenture)
Regulatory framework	The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company
Funding basis	A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities
Frequency of funding reviews	Normally, every three years
Latest completed valuation	March 31, 2017
Funding deficit ¹ at latest completed valuation	£604 million
Recovery plan	£125 million in January 2019 and £290 million in March 2019, following experience gains since the March 31, 2017 valuation date
Next funding review	March 31, 2020
Asset allocation at March 31, 2018	
Matching:	96%
Return seeking:	4%
Matching:	Buy-in annuity contracts cover approximately 99% of pensioner liabilities and 81% of total liabilities
Membership at March 31, 2018	
Active	201
Deferred	7,483
Pensioner	41,234
Total	48,968

¹ Based on local valuation regulations.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Key plan details of the largest two pension plans

	ICI Specialty Chemicals Pension Fund, UK
Type of plan	Defined benefit, based upon years of service and final salary
Benefits	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement
Pension increases (main benefit section)	Annually linked to UK RPI with a maximum of 5 percent
Plan structure	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Three member-nominated trustees Four appointed with the agreement of Law Debenture One independent (Law Debenture)
Regulatory framework	The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company
Funding basis	A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities
Frequency of funding reviews	Normally, every three years
Latest valuation	March 31, 2017
Funding deficit ¹ at latest valuation	£25.2 million
Recovery plan	£3 million per annum from 2019 to 2022 to be paid in January each year
Next funding review	March 31, 2020
Asset allocation at March 31, 2018	
Matching:	83%
Return seeking:	17%
Matching:	Buy-in annuity contracts cover approximately 99% of pensioner liabilities and 64% of total liabilities
Membership at March 31, 2018	
Active	31
Deferred	869
Pensioner	876
Total	1,776

¹ Based on local valuation regulations.

On 12 April 2018 the actuarial valuation funding deficit of the ICI Specialty Chemicals Pension Fund as at 31 March 2017 was agreed as £25.2 million, with an associated recovery plan of £6 million in March 2018 and £3 million per annum from 2019 to 2022 to be paid in January each year.

In March 2019 the actuarial valuation funding deficit of the ICI Pension Fund as at 31 March 2017 was agreed as £604 million with an associated recovery plan of £125 million in January 2019 and £290 million in March 2019, following experience gains since the March 31, 2017 valuation date.

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings

The companies, in which the Company's interest at 31 December 2018 is more than 20%, are as follows;

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership	
			2018	2017
Akzo Nobel India Limited**	India	Equity	50.46%	49.24%
Akzo Nobel (NASH) Limited*	England and Wales	Ordinary	100%	100%
Akzo Nobel (NSC) Limited*	England and Wales	Ordinary	100%	100%
Akzo Nobel Packaging Coatings Limited*	England and Wales	Ordinary	100%	100%
Akzo Nobel Paints Lanka (PVT) Limited**	Sri Lanka	Ordinary	50.6%	50.6%
Akzo Nobel Paints (Malaysia) Sdn. Bhd.*	Malaysia	Ordinary	59.95%	59.95%
Akzo Nobel Paints Vietnam Ltd*	Vietnam	Ordinary	100%	100%
Cuprinol Limited *	England and Wales	Ordinary	100%	100%
Dulux Botswana (Pty) limited*	Botswana	Class A	100%	100%
		Class B	100%	100%
Dulux Limited	England and Wales	Ordinary	100%	100%
Dulux Swaziland (Pty) Limited*	Swaziland	Capital	100%	100%
Dulux Zambia (2005) Limited*	Zambia	Ordinary	99%	99%
Ergon Investments International Limited*	England and Wales	Ordinary	100%	100%
Ergon Investments UK Limited	England and Wales	Ordinary	100%	100%
Hammerite Products Limited*	England and Wales	Ordinary	100%	100%
Horseferry Investments Limited	England and Wales	Ordinary	100%	100%
ICHEM Reinsurance Company Limited	Cayman Islands	Ordinary	100%	100%
ICI Chemicals & Polymers Limited*	England and Wales	Ordinary	100%	100%
ICI Fertilisers (Ireland) Limited	Ireland	Ordinary	99.9%	99.9%
ICI Finance Limited	England and Wales	Ordinary	100%	100%
		Preference	100%	100%
		Voting Only	25%	25%
ICI India Research and Technology Centre*	India			
ICI Insurance Company Limited#	Cayman Islands	Ordinary	100%	100%
ICI International Investments Limited	Cayman Islands	Ordinary	100%	100%
ICI International Limited	England and Wales	Ordinary	100%	100%
ICI Ireland Limited*	Ireland	Ordinary	100%	100%
ICI Kern**	Venezuela	Ordinary	55%	55%
ICI Limited	England and Wales	Ordinary	100%	100%
ICI North America Limited	England and Wales	Ordinary	100%	100%
ICI Paints (Trade Contract) Limited*	England and Wales	Ordinary	100%	100%

Notes to the Financial Statements (continued)

23 Investment in related undertakings (continued)

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership	
			2018	2017
ICI Theta BV*	Netherlands	Ordinary	100%	100%
Intex Yarns (Manufacturing) Limited*	England and Wales	Ordinary	100%	100%
Impkemix Trustee Ltd	Guernsey	Ordinary	100%	100%
J.P. McDougall & Co. Limited*	England and Wales	Ordinary	100%	100%
Metlac S.p.A.*	Italy	Ordinary	44.44%	44.44%
Mortar Investments International Limited	England and Wales	Ordinary	100%	100%
Mortar Investments UK Limited	England and Wales	Ordinary	99.9%	99.9%
Pinturas Coral De Bolivia Ltda*	Bolivia	Ordinary	99%	99%
Polycell Products Limited*	England and Wales	Ordinary	100%	100%
Quest International (Dublin) Limited*	Ireland	Ordinary	100%	100%
Sales Support Group Limited*	England and Wales	Ordinary	100%	100%
Scottish Agricultural Industries Limited*	England and Wales	Ordinary	100%	100%
Stevenston Holdings Limited	England and Wales	Ordinary	100%	100%

Subsidiary undertakings	Registered Office Address	Limited shares by guarantee	Registration or number	Public or private
Akzo Nobel India Limited**	Geetanjali Apartment, 8 B, Middleton Street Kolkata 700 071 India	Shares	L24292WB19 54PLC021516	Public
Akzo Nobel (NASH) Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	1000836	Private
Akzo Nobel (NSC) Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	226707	Private
Akzo Nobel Packaging Coatings Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	59837	Private
Akzo Nobel Paints Lanka (PVT) Limited**	CIC House, 199 Kew Road Colombo 2 Sri Lanka	Shares	PV 4610	Private
Akzo Nobel Paints (Malaysia) Sdn. Bhd.*	Lot 5827, Kawasan Perindustrian Nilai Nilai 71800 Malaysia	Shares	3393-V	Private

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee	Shares	Registration number	Public or private
Akzo Nobel Paints Vietnam Ltd*	Lot E-1-CN, My Phuoc II Industrial Park, Ben Cat District Binh Duong Vietnam	Shares	462043000572	Private	
Cuprinol Limited *	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	272308	Private	
Dulux Botswana (Pty) limited*	Haile Selassie Road Gaborone Botswana	Shares	Co. 1855	Private	
Dulux Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2048463	Private	
Dulux Swaziland (Pty) Limited*	10th Street Industrial Site Matsapha Swaziland	Shares	7/1966	Private	
Dulux Zambia (2005) Limited*	Plot no. 290 Nampungwe Road, Off Mumbwa Road, Chinika Lusaka 10101 Zambia	Shares	60107	Private	
Ergon Investments International Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2074788	Private	
Ergon Investments UK Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2074787	Private	
Hammerite Products Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2781134	Private	
Horseferry Investments Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2306148	Private	
ICHEM Reinsurance Company Limited	94 Solaris Avenue, Second Floor, PO Box 69 Camana Bay Cayman Islands	Shares	#1070	Private	

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee	Shares	Registration number	Public or private
ICI Chemicals & Polymers Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	358535		Private
ICI Fertilisers (Ireland) Limited	Courthouse Chambers, 27/29 Washington Street Cork Ireland	Shares	115416		Private
ICI Finance Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	45690		Private
ICI India Research and Technology Centre*	Plot No. 1/1, TTC Industrial Area, Thane Belapur Road, 12 Koparkhaima Navi Mumbai 400709 India	Shares	U73100MH19 76PTC019199		Private
ICI Insurance Company Limited#	94 Solaris Avenue, Second Floor, PO Box 69 Camana Bay Cayman Islands	Shares	#2475		Private
ICI International Investments Limited	PO Box 309 Ugland House, South Church Street George Town KY1-1104 Cayman Islands	Shares	26631		Private
ICI International Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2766927		Private
ICI Ireland Limited*	Shandon Works, Commons Road Cork Ireland	Shares	196184		Private
ICI Kern**	Edificio Kern Arda, Principal Los Cortijos de Lourde, Aparto 1567, Caracas Venezuela	Shares	N/A		Private
ICI Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	1852101		Private
ICI North America Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	989786		Private

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee	Registration number	Public or private
ICI Paints (Trade Contract) Limited*	Manchester Road, West Timperley Altrincham WA14 5PG United Kingdom	Shares	2881641	Private
ICI Theta BV*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	24171758	Private
Impkemix Trustee Limited	P.O. Box 25, Regency Court, Gategny Esplanada, GY1 3AP Saint Peter Port Guernsey	Shares	28405	Private
Intex Yarns (Manufacturing) Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	137784	Private
J.P. McDougall & Co. Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	254941	Private
Metlac S.p.A.*	Strada Statale 35 Bis dei Giovi Bosco Marengo 53-15062 Italy	Shares	01264360064	Private
Mortar Investments International Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2767051	Private
Mortar Investments UK Limited	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	2767052	Private
Pinturas Coral De Bolivia Ltda*	Parque Industrial Pi 24 Santa Cruz de la Sierra Bolivia	Shares	NIT 1015213026	Private
Polycell Products Limited*	The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom	Shares	521214	Private

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee Shares	Registration number	Public or private
Quest International (Dublin) Limited*	Shandon Works, Commons Road Cork Ireland		37960	Private
Sales Support Group Limited*	Manchester Road, West Timperley Altrincham WA14 5PG United Kingdom	Shares	891336	Private
Scottish Agricultural Industries Limited*	Dundas & Wilson CS LLP, Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN United Kingdom	Shares	15365	Private
Stevenston Holdings Limited	Dundas & Wilson CS LLP, Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN United Kingdom	Shares	SC48881	Private

*Held by Subsidiaries

**Equity

The company sold 100% of the share capital in ICI Insurance Company Limited in April 2020

On 1 January 2017, Akzo Nobel Paints (Asia Pacific) Pte Ltd merged into Akzo Nobel Paints (Singapore) Pte. Ltd and now operates entirely through the latter entity.

24 Operating leases

The toll manufacturing arrangement the Company has with another group company is partly accounted for as an operating lease arrangement as per IFRIC 4, where the Company is the lessor. This lease extends to its production facilities and the agreement is for a duration of 5 years from 1st October 2014. As there is no formal lease agreement in place between the parties, there are no set minimum contractual lease payments.

25 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a wholly owned subsidiary company of Akzo Nobel ICI Holdings, a company incorporated in England and Wales.

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

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

26 Assets classified as held for sale

In May 2019, the Company entered into a sale contract for the sale of its non-operating plant and land located at Slough UK. The sale was completed in May 2019 at an agreed value of £65m. With the sale of the manufacturing site, related environmental liability has also been transferred to the buyer in line with "Deed of Indemnity in respect of Environmental liability" dated 30 May 2019.

Pursuant to the above sale, the carrying value of land and related assets has been classified as assets held for sale. Associated environmental liabilities have been classified as liabilities directly associated with assets classified as held for sale.

Notes to the Financial Statements *(continued)*

26 Assets classified as held for sale *(continued)*

Classes of assets and liabilities classified as held for sale as follows:

	2018
	£m
Land and building	21
Environmental provision associated with assets classified as held for	(7)

Environmental provision

Provision to restore manufacturing sites, located at Slough, was released in May 2019 following the sale of plant and transfer of related environmental liabilities to the buyer.

27 Post Balance Sheet Events

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

In May 2019 the company disposed of land and buildings with a net book value of £21million for net proceeds of £65million.

In December 2019 intercompany loans receivable of £585,500,000 were repaid.

In April 2020 the company disposed of 100% share capital in ICI Insurance Company Limited for a total consideration of €5,700,00.