

Akzo Nobel Services Limited

**Directors' report and financial
statements**

Registered number 429836

31 December 2004



Contents

Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report to the members of Akzo Nobel Services Limited	3
Profit and loss account	4
Balance sheet	5
Reconciliation of movements in shareholders' funds	6
Notes	7

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities and business review

The Company acts as an investment holding company for the Akzo Nobel group of companies. During the year under review, the ultimate parent Akzo Nobel N.V. required a regrouping of its UK companies. Accordingly, the Company made the following disposals:

- (1) on 25 February 2004 the Company disposed of the beneficial interest in 68.4% of the issued share capital of Akzo Nobel Investments (US) Limited for consideration of £ 85,189,074;
- (2) on 25 February 2004 the Company disposed of the beneficial interest in 100% of the issued share capital of International Coatings Limited for consideration of £ 159,481,000;
- (3) on 11 March 2004 the Company disposed of the beneficial interest in 100% of the issued share capital of Oakwood Limited for consideration of £ 3,264,000;
- (4) on 17 August 2004 the Company disposed of the beneficial interest in 51% of the issued share capital of Akzo Nobel Investments Finance Limited for consideration of £ 17,954,081.

Results and dividends

The profit and loss account and balance sheet, together with appropriate notes, are set out on pages 4 to 9.

The Directors do not recommend the payment of a dividend (2003: £Nil).

Directors and director's interests

The Directors who held office during the year were as follows:

MS Clark

RH Miller (resigned 26 May 2005)

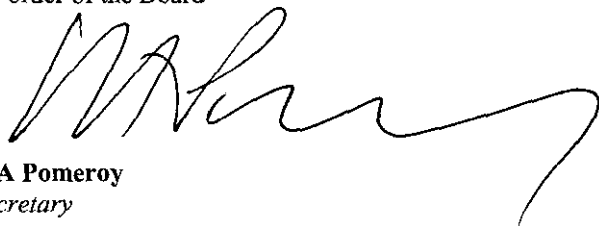
O.H. Director Limited (appointed 26 May 2005)

The Companies Act (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985 No 802) are applicable to the company.

Auditors

An elective resolution has been passed in accordance with section 386 Companies Act 1985 dispensing with the requirement to appoint auditors annually and KPMG LLP will therefore continue in office.

By order of the Board



V A Pomeroy
Secretary

PO Box 20980
Oriel House
16 Connaught Place
London
W2 2ZB
14 September 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the company's state of affairs at the end of the year and profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Akzo Nobel Services Limited

We have audited the financial statements on pages 4 to 9.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

14 September 2005

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £000	2003 £000
Amounts written off investments	6	(1,030)	(22,011)
Profit on sale of investments	6	123,492	-
Interest payable	4	(2,872)	(18,710)
Income from shares in group undertakings		9,715	4,400
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	2,3	129,305	(36,321)
Tax on profit/(loss) on ordinary activities	5	862	5,613
		<hr/>	<hr/>
Retained profit/(loss) for the financial year	10	130,167	(30,708)
		<hr/> <hr/>	<hr/> <hr/>

The results for both the current and preceding years relate to continuing operations.

There were no recognised gains or losses in either year other than those dealt with in the profit and loss account.

Balance sheet
at 31 December 2004

	<i>Note</i>	2004	2003
		£000	£000
Fixed asset investments			
Shares in group undertakings	6	197,669	341,094
Current assets			
Debtors	7	47,356	38,094
Creditors: Amounts falling due within one year	8	(14,112)	(278,442)
Net current assets/(liabilities)		33,244	(240,348)
Net assets		230,913	100,746
Capital and reserves			
Called up share capital	9	150,000	150,000
Profit and loss account	10	80,913	(49,254)
Equity shareholders' funds		230,913	100,746

These financial statements were approved by the board of directors on 14 September 2005 and were signed on its behalf by:



MS Clark
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2004

	2004 £000	2003 £000
Profit/(loss) for the financial year and net addition to/(reduction in) shareholders' funds	130,167	(30,708)
Opening shareholders' funds	100,746	131,454
Closing shareholders' funds	230,913	100,746

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Consolidated financial statements

The Company is exempt by virtue of S228 CA 1985 from the requirement to prepare consolidated financial statements. These financial statements, therefore, present information about the company and not about its group.

Fixed asset investments

Investments are stated at cost unless, in the opinion of the Directors, there has been an impairment in which case an appropriate adjustment is made.

Cash flow statement

Under FRS 1 (revised 1996) 'Cash flow statements' the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent company includes the company in its own published consolidated financial statements.

Deferred Tax

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

2 Profit/(loss) on ordinary activities before taxation

There were no staff employed by the company and there is no charge for the remuneration of auditors in the financial statements of the company as the auditors' remuneration for audit services was borne by another group company.

3 Directors' remuneration

The directors received no remuneration for their services to the company. The present directors are employed by, and receive remuneration for services from, a wholly owned subsidiary of the ultimate parent company.

4 Interest payable

	2004 £000	2003 £000
Interest payable to immediate parent company	2,872	18,710

5 Taxation

	2004 £000	2003 £000
<i>UK corporation tax</i>		
Current tax credit on profit from ordinary activities	862	5,613

Notes (continued)

5 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax credit for the period is different from the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below.

	2004 £000	2003 £000
<i>Current tax reconciliation</i>		
Profit (loss) on ordinary activities before tax	129,305	(36,321)
Current tax at 30% (2003: 30%)	(38,791)	10,896
<i>Effects of:</i>		
Profits not taxable - profit on disposal of investments	37,047	-
- income from shares in group company	2,915	1,320
Expenses not deductible for tax purposes (impairment of investments)	(309)	(6,603)
Total current tax credit (see above)	862	5,613

6 Fixed asset investments

Shares in group undertakings	£000
<i>Cost</i>	
At beginning of year	424,750
Disposals	(162,349)
At end of year	262,401
<i>Provisions</i>	
At beginning of year	83,656
Impairment losses	1,030
Disposals	(19,954)
At end of year	64,732
<i>Net book value</i>	
At 31 December 2003	341,094
At 31 December 2004	197,669

The directors have reviewed the company's investments and performed an impairment review. Following that review they have increased the provision for impairment losses by a further £1,030,000 such that the net book value at the balance sheet date does not exceed the estimated recoverable amount.

Subsidiary companies

	Country of incorporation	Principal Activity	Percentage and class of shares held
Akzo Nobel Films (Holdings) Limited	England	Dormant	100% Ordinary
Akzo Nobel International Finance N.V.	Netherlands Antilles	Dormant	100% Ordinary
Akzo Nobel Investments (Holdings) Limited	England	Holding company	100% Ordinary
James Nelson Limited	England	Dormant	100% Ordinary
Kendall Place (Bets) Limited	England	Dormant	100% Ordinary
Martin Processing (UK) Limited	England	Dormant	100% Ordinary
Senco International Limited	England	Dormant	100% Ordinary
SIH Limited	England	Dormant	98.1% Ordinary, 1.14% 'A' Ordinary, 0.76% 'B' Ordinary
Trackwell Limited	England	Dormant	100% Ordinary
Flexitainers Limited	England	Dormant	100% Ordinary
Holywell-Halkyn Mining and Tunnel Co Limited	England	Dormant	100% Ordinary
International Paints Exports Limited	England	Dormant	100% Ordinary
International Paints Investments Limited	England	Dormant	100% Ordinary
Cloudburst II Limited	England	Dormant	100% Ordinary
CP Films Limited	England	Dormant	100% Ordinary
David Barnes Limited	England	Dormant	100% Ordinary
Eighteen Hanover Square Limited	England	Finance company	100% Deferred
Fothergill & Harvey Limited	England	Dormant	100% Ordinary
Group Nominees Limited	England	Dormant	100% Ordinary
Sydenham Aerospace Limited	England	Dormant	100% Ordinary
Sydenham Towers Limited	England	Dormant	100% Ordinary

Notes (continued)

6 Shares in group undertakings (continued)

On 25 February 2004 the Company disposed of the beneficial interest in 68.4% of the issued share capital of Akzo Nobel Investments (US) Limited for consideration of £ 85,189,074 and disposed of the beneficial interest in 100% of the issued share capital of International Coatings Limited for consideration of £ 159,481,000. On 11 March 2004 the Company disposed of the beneficial interest in 100% of the issued share capital of Oakwood Limited for consideration of £ 3,264,000 and on 17 August 2004 the Company disposed of the beneficial interest in 51% of the issued share capital of Akzo Nobel Investments Finance Limited for consideration of £ 17,954,081.

7 Debtors

	2004 £000	2003 £000
Due from group companies	47,356	38,094

8 Creditors: Amounts falling due within one year

	2004 £000	2003 £000
Due to group companies	14,112	278,442

9 Called up share capital

	2004 £000	2003 £000
<i>Authorised:</i>		
Equity: 150,000,000 ordinary shares of £1 each	150,000	150,000
<i>Allotted, called up and fully paid:</i>		
Equity: 150,000,000 ordinary shares of £1 each	150,000	150,000

10 Profit and loss account

	2004 £000	2003 £000
At beginning of year	(49,254)	(18,546)
Retained profit/(loss) for the year	130,167	(30,708)
At end of year	80,913	(49,254)

11 Related party transactions

As a wholly owned subsidiary, the company has taken advantage of the exemption contained in FRS 8 Related Party Disclosures and has therefore not disclosed transactions or balances with other entities in the Akzo Nobel group. No director during the year has been materially interested in any contract with the company which is significant in relation to the company's activities.

12 Immediate and ultimate parent undertakings

The company is a wholly owned subsidiary company of Akzo Nobel UK Ltd, a company incorporated in Great Britain and registered 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., a company incorporated in the Netherlands.

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