

**Company Registration No 436135**

**PPG ARCHITECTURAL COATINGS UK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2018**

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# **PPG ARCHITECTURAL COATINGS UK LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2018**

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**PPG ARCHITECTURAL COATINGS UK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2018**

**OFFICERS AND PROFESSIONAL ADVISERS**

**Directors**

M Baines  
P Dowie  
J Metcalf  
L Morris  
V O'Sullivan  
A Sindhar  
S Pocock  
G Roebuck

**Registered Office**

Huddersfield Road  
Birstall  
Batley  
West Yorkshire  
WF17 9XA

**Bankers**

BNP Paribas  
Fortis Bank S.A.-N.V.  
10 Harewood Avenue  
London  
NW1 6AA

**Solicitors**

Walker Morris  
Kings Court  
12 King Street  
Leeds  
LS1 2HL

**Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their strategic report on the company for the year ended 31 December 2018.

#### **Principal activities and business review**

The principal activity of the company remains that of the manufacture and distribution of architectural coatings products to both the trade and retail paint segments.

Both paint segments continue to remain highly competitive environments. The trade paint segment had its weakest volume performance for a number of years whilst the retail paint segment experienced a small volume increase. We continue to see new entrants to the market from smaller niche businesses and competition remains strong.

In spite of this, the company's sales continued to perform very well, growing ahead of the market in terms of volume. Both the Johnstone's and Leyland brands have contributed to this success.

In the trade paint segment we continued to invest further in our Johnstone's Decorating Centre network. During 2018 we opened 2 new stores (Hereford and Sutton Coldfield). During this year we also exited our Leicester Wilson Street store as part of the strategic plan. We also relocated our London Bow store to Bethnal Green plus the acquisitions of merchant businesses Chorlton Trade Paints and Cardiff based Paint4less. At the end of 2018, our Decorating Centre network consisted of 205 stores.

New Product Development remains integral to our strategy and in 2018 we launched a number of new products in our Johnstone's brand. In Johnstone's Trade, we launched Stainaway and Airpure whilst also rolling out the new global PPG 'trend-led' Colour Palette 'Voice of Colour' into our trade business.

In 2018, we expanded our TV sponsorship on ITV4 to include Leyland Trade and Johnstone's Trade brands. In addition, we advertised some key innovations in the market on radio and in national press.

We continue to develop our business in adjacent markets with further sales growth in External Wall Insulation and Render Systems along with Performance Coatings and decorating tools and accessories. We remain focused on being the provider of total coatings solutions to our clients and customers, and invest to drive brand awareness and participation in these markets.

The retail business remains extremely competitive. We have increased our retail brand presence with key customers whilst continuing to grow our Trade brand distribution through strategic partners.

We continue to make significant investment in our manufacturing and logistics facilities. Our investment is focused to adapt to market demands and increase our overall capacity and flexibility.

## PPG ARCHITECTURAL COATINGS UK LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### Key Performance Indicators

The balance sheet on page 13 of the annual report and financial statements shows the company's financial position at the end of the year.

The performance for the year together with comparative data is set out in the table below:

	2018	2017	Definition, method of calculation and analysis
Gross profit (%)	44.9%	46.6%	The ratio of gross profit to turnover expressed as a percentage. Within the competitive market, our aim is to offset pressure on price by manufacturing and purchasing initiatives.
Return on sales (%)	14.0%	16.4%	Operating profit expressed as a percentage of turnover. We maintain our cost control in a competitive market and work towards delivering improved ROS.
Return on Investment capital (%)	22.6%	30.6%	Operating profit expressed as a percentage of net assets. Amount of net assets increased due to an increase in long term inter-company loans with PPG Holdings UK Limited.

#### Strategy

The company's overriding objective is to achieve attractive and sustainable rates of growth and return; principally through organic growth. The company intends to do this via substantial gains in segment share supported by excellent people.

#### Future outlook

Under the ownership of our ultimate parent company, PPG Industries, Inc., we remain fully committed to increasing segment share in 2019 and beyond, in spite of some very tough segment conditions.

Investment in our Decorating Centre network and brands continues to be our focus, to maintain and improve our levels of performance in the future. This strategy is fully supported by PPG Industries, Inc.

On behalf of the board

S Pocock  
Director

23 September 2019

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

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

#### **Results and dividends**

The results of the company show a pre-tax profit of £36.8m (2017: £41.1m).

The directors did not pay an interim dividend during the year ended 31 December 2018 (2017: £105m).

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: £nil).

#### **Principal risks and uncertainties**

The company maintains a constant focus on innovation, supply chain investment and cost management, working closely with customers to identify changing customer requirements to ensure best value. This approach is one of the key pillars of our company strategy.

The credit risk on financial assets and liabilities is limited because the company, through parent holding companies, has recourse to long term group borrowings which finance the business. Whilst the UK companies continue to make a significant contribution to the financial results of the PPG group, this financing will remain available.

Cash flow risk is primarily in the area of foreign exchange exposure, notably with the Euro. This is managed by currency loans funded through the group treasury function.

The company has recourse to the group treasury function in order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments.

#### **Going concern**

The financial statements are prepared on the basis that the company is a going concern, as the directors have reviewed the financial condition of the company and of the PPG group including consideration of future forecasts and uncertainties arising from the current economic environment.

#### **Directors**

The directors of the company, who served for the whole of the year ended 31 December 2018 and up to the date of this report, except as noted:

M Baines  
P Dowie  
P Lafford (resigned 28 March 2018)  
J Metcalf  
L Morris  
V O'Sullivan  
F Parry (resigned 31 July 2019)  
S Pocock  
G Roebuck  
A Sindhar (appointed 31 July 2019)

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)**

#### **Research and development**

The board places a high priority on research and technological innovation, which serves the needs of customers. The cost of such work is disclosed in note 5 to the financial statements.

#### **Employment policies**

Employees or their representatives are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. It is the policy of the company to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the company, as well as generally through training and career development.

Health and safety at work has always been of prime concern. Continuous efforts are made to improve existing measures and to stimulate interest in safety in each employee.

#### **Environmental policies**

At PPG, we are committed to using resources efficiently to preserve and protect the environment in which we operate. To support this we have a programme of continuous improvement aimed at reducing our impact on the environment every year.

We established a new set of environmental sustainability goals in 2016 to better represent the sustainability challenges we currently face. We measure intensity and other calculated rates rather than absolute numbers to account for year-to-year variations in production volume and company growth, which could mask progress or slippage against the goals.

#### **Supplier payment policy**

The company's policy is to settle transactions according to payment terms agreed with suppliers when accounts are opened. Trade creditors of the company at 31 December 2018 were equivalent to 130 days purchases (2017: 153 days), based on the average daily amount invoiced by suppliers during the year. We utilize the supply chain finance services of BNP Paribas to extend our payment terms but without detriment to our suppliers.

#### **Charitable and political contributions**

During the year the company made charitable donations of £8,981 (2017: £7,455), principally to local charities serving the communities in which the company operates. We also utilise corporate grants for charity and community projects in our region and encourage our employees to provide assistance during working hours. The company made no political contributions.

#### **Statement of disclosure of information to auditors**

The Directors of the company at the date of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**PPG ARCHITECTURAL COATINGS UK LIMITED**

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

**Independent auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



**S Pocock**  
**Director**

23 September 2019



## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 102, 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.

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, PPG Architectural Coatings UK 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

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

##### **Independence**

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

##### **Conclusions relating to going concern**

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

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

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

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

##### **Reporting on other information**

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

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

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED (continued)**

#### **Reporting on other information**

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

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

#### **Strategic Report and Directors' Report**

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

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

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 8, 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](http://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.

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPG ARCHITECTURAL COATINGS UK LIMITED (continued)**

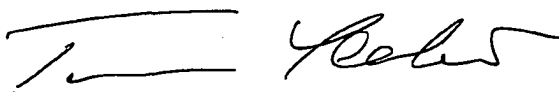
#### **Other required reporting**

##### **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.



Tom Yeates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
24 September 2019

# PPG ARCHITECTURAL COATINGS UK LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £ 000	2017 £ 000
<b>TURNOVER</b>	3	257,114	244,691
Cost of sales		(141,628)	(130,683)
<b>GROSS PROFIT</b>		115,486	114,008
Distribution costs		(59,821)	(57,749)
Administrative expenses		(19,693)	(16,251)
<b>OPERATING PROFIT</b>	5	35,972	40,008
Interest receivable and similar income	6	875	1,115
<b>PROFIT BEFORE TAX</b>		36,847	41,123
Tax on profit	7	(8,488)	(6,897)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		28,359	34,226

All of the above activities are derived from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £ 000	2017 £ 000
<b>Profit for the financial year</b>		28,359	34,226
<b>Other comprehensive income/(expense)</b>			
Re-measurements of net defined benefit obligation	15	134	(96)
<b>Other comprehensive income/(expense) for the year</b>		134	(96)
<b>Total comprehensive income for the year</b>		28,493	34,130

# PPG ARCHITECTURAL COATINGS UK LIMITED

## BALANCE SHEET

As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Fixed assets</b>			
Intangible assets	8	1,456	1,418
Tangible assets	9	<u>19,386</u>	<u>18,168</u>
		<u>20,842</u>	<u>19,586</u>
<b>Current assets</b>			
Stocks	10	20,743	22,071
Debtors	11	177,418	144,710
Cash at bank and in hand		<u>1,118</u>	<u>5,644</u>
		<u>199,279</u>	<u>172,425</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(60,449)</u>	<u>(60,832)</u>
<b>Net current assets</b>		<u>138,830</u>	<u>111,593</u>
<b>Total assets less current liabilities</b>		<b>159,672</b>	<b>131,179</b>
<b>Creditors: amounts falling due after more than one year</b>	13	<b>(334)</b>	<b>(334)</b>
<b>Provisions for liabilities</b>	14	<u>(17)</u>	<u>(17)</u>
<b>Net assets</b>		<u>159,321</u>	<u>130,828</u>
<b>Capital and reserves</b>			
Called up share capital	16	350	350
Profit and loss account		<u>158,971</u>	<u>130,478</u>
<b>Total shareholders' funds</b>		<u>159,321</u>	<u>130,828</u>

The financial statements of PPG Architectural Coatings UK Limited, registered number 436135, on pages 12 to 26 were approved by the Board of Directors on 23 September 2019 and signed on its behalf by:

  
S Pocock  
Director

# PPG ARCHITECTURAL COATINGS UK LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Called-up share capital £ 000	Profit and loss account £ 000	Total shareholders' funds £ 000
Balance as at 1 January 2017	350	201,299	201,649
Profit for the year	-	34,226	34,226
Other comprehensive expense for the year	-	(96)	(96)
Total comprehensive income for the year	-	34,130	34,130
Dividend	-	(105,000)	(105,000)
Adjustment to prior year	-	49	49
Balance at 31 December 2017	350	130,478	130,828
Balance as at 1 January 2018	350	130,478	130,828
Profit for the year	-	28,359	28,359
Other comprehensive income for the year	-	134	134
Total comprehensive income for the year	-	28,493	28,493
Balance at 31 December 2018	350	158,971	159,321

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

#### **1. ACCOUNTING POLICIES**

##### **Basis of preparation**

PPG Architectural Coatings UK Limited ('the company') is a limited company incorporated in the United Kingdom. The address of its registered office and principal place of business are disclosed on page 2. The company's principal activity is the manufacture and distribution of architectural coatings products to both the trade and retail paint segments.

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom law and accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). The particular accounting policies adopted are described below. They have been applied consistently in both years.

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

##### **Exemptions**

The Company's shareholders have been notified of the following exemptions and no objections have been received.

The Company has taken advantage of the exemption in FRS 102 (Section 33) 'Related party disclosure' not to disclose its transactions with group companies as its results are consolidated into the financial statements of its ultimate parent company which are publicly available.

The Company is a wholly owned subsidiary undertaking of PPG Industries Inc., which produces a consolidated cash flow statement that is publicly available. In accordance with Financial Reporting Standard 102 (FRS 102), the company has taken advantage of the exemption in FRS 102 from preparing a cash flow statement.

The Company has exemption from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures.

##### **Going concern**

The financial statements are prepared on the basis that the company is a going concern, as the directors have reviewed the financial condition of the company and of the PPG group including consideration of future forecasts and uncertainties arising from the current economic environment. Based upon this the directors have formed the view that the position of the company and the PPG group is sufficiently strong. Consequently the directors are satisfied it is reasonable to prepare the financial statements on a going concern basis.



## PPG ARCHITECTURAL COATINGS UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2018

#### 1. ACCOUNTING POLICIES (continued)

##### Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In establishing cost, stocks and work in progress at the end of the year are taken to represent latest purchases or production.

On this basis, cost comprises:

Raw materials	-	purchase price
Work in progress and finished goods	-	raw materials, direct labour and attributable production overheads

##### Turnover

Turnover represents the invoiced value of sales net of value added tax in the normal course of business and is recognised upon despatch of goods sold. Geographical analysis of turnover is shown in note 3.

##### Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation. The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition. Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives.

The estimated useful lives of assets are as follows:

Short leasehold properties	-	By reference to the unexpired portion of the lease
Plant and motor vehicles	-	3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account.

##### Pensions and retirement indemnities

The company participates in a defined benefit pension scheme. The scheme is administered by trustees and is independent of the company finances. Contributions are paid to the scheme in accordance with the recommendations of independent actuaries to enable the trustees to meet from the scheme the benefits accruing in respect of current and future service. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The pension scheme's surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The company contributes to a defined contribution pension plan for new employees. Contributions are charged to the profit and loss accounts as they become payable.

## **PPG ARCHITECTURAL COATINGS UK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2018**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase contracts are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period of the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

##### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the profit and loss account.

##### **Intangibles**

Intellectual property rights and investment in an electric substation are amortised on a straight line basis over their estimated useful economic lives of 5 and 20 years respectively. Capitalised software is amortised on a straight line basis over its estimated useful economic life between 3 and 5 years.

Capitalised software is amortised on a straight line basis over its estimated useful economic life between 3 and 5 years.

#### **2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY**

##### **Critical accounting judgements and estimation of uncertainty**

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.

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 an adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### **(i) Useful economic lives of tangible assets**

The annual depreciation charge for tangible 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. See note 9 for the carrying amount of the property plant and equipment, and note 1 for the useful economic lives for each class of assets.

## PPG ARCHITECTURAL COATINGS UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

#### 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

##### (ii) Inventory provisioning

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 10 for the net carrying amount of the inventory and associated provision.

##### (iii) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of the debtors and historical experience. See note 11 for the net carrying amount of the debtors and associated impairment provision.

#### 3. TURNOVER

	2018 £'000	2017 £'000
United Kingdom	246,829	234,903
Europe	10,100	9,612
Rest of the world	185	176
	<u>257,114</u>	<u>244,691</u>

Turnover relates to sales of architectural coatings products.

#### 4. EMPLOYEES

	2018 £'000	2017 £'000
a) Employment cost of employees:		
Wages and salaries	38,812	38,958
Social security costs	3,609	3,707
Other pension costs	3,507	3,184
	<u>45,928</u>	<u>45,849</u>
	2018 Number	2017 Number
b) The average monthly number of people employed by the company during the year was:		
Production	297	322
Selling and distribution	1,018	1,022
Administration	72	65
	<u>1,387</u>	<u>1,409</u>
c) Directors' Emoluments:	2018 £'000	2017 £'000
Fees	1,165	1,253
Other emoluments (including pension contributions and benefits in kind)	415	283
	<u>1,580</u>	<u>1,536</u>

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

### 4. EMPLOYEES (continued)

#### d) Directors' Pensions

All directors are members of the company's defined contribution pension scheme in both years:

Highest paid director

The remuneration of the highest paid director, including pension contributions of £35,533 (2017: £33,000), was £252,000 (2017: £254,000).

### 5. OPERATING PROFIT

	2018 £'000	2017 £'000
--	---------------	---------------

Operating profit is arrived at after charging:

Depreciation of tangible fixed assets - owned	3,208	2,892
Depreciation of tangible fixed assets - leased	20	20
Loss on disposal of assets	25	24
Amortisation of intangible fixed assets	588	553
Hire of plant and machinery - operating leases	2,201	1,951
Hire of other assets - operating leases	5,076	5,136
Research and development costs	1,142	2,390
Fees payable to the company's auditors for the audit of the company's annual financial statements	56	56

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2018 £'000
Receivable from group undertakings	875	1,115

### 7. TAX ON PROFIT

	2018 £'000	2017 £'000
<u>UK Corporation tax:</u>		
Current tax on income for the year	7,514	6,924
Adjustment in respect of prior years	759	-
Total current tax charge	8,273	6,924
<u>Deferred tax (see note 11):</u>		
Deferred tax current year	241	291
Adjustment in respect of prior years	(26)	(318)
Tax on profit on ordinary activities	8,488	6,897

## PPG ARCHITECTURAL COATINGS UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

#### 7. TAX ON PROFIT (continued)

The actual tax charge for the current and the previous year differs from the standard rate of Corporation tax in the UK for the reasons set out in the following reconciliation;

	2018 £'000	2017 £'000
Profit before tax	36,847	41,123
Current tax 19% (2017: 19.25%)	7,001	7,916
<u>Effects of:</u>		
Expenses not deductible for tax purposes	454	125
Other timing differences	(42)	124
Imputed interest income	360	432
Pension scheme adjustments	(18)	(19)
Adjustment to tax charge in respect of prior years	733	(318)
Group relief claimed for no payment	-	(1,363)
Total tax charge (see above)	8,488	6,897

The Corporate tax rate was reduced to 19% with effect from 1 April 2017 with a further rate reduction to 17% from 1 April 2020 enacted by the balance sheet date. The current tax rate for the year ended 31 December 2018 is therefore 19% (2017: 19.25%) and deferred tax has been recognised at 17% (2017: 17%).

#### 8. INTANGIBLE ASSETS

	Computer Software	Trademark Licences	Purchased Goodwill	Total
	£ 000	£ 000	£ 000	£ 000
<b>Cost</b>				
At 1 January 2018	3,624	496	62,907	67,027
Additions	174	47	405	626
Disposals	(322)	-	-	(322)
At 31 December 2018	3,476	543	63,312	67,331
<b>Accumulated Amortisation</b>				
At 1 January 2018	2,612	369	62,628	65,609
Charge for the year	339	194	55	588
Transfer	-	(105)	105	-
Disposal	(322)	-	-	(322)
At 31 December 2018	2,629	458	62,788	65,875
<b>Net book value</b>				
At 31 December 2018	847	85	524	1,456
At 31 December 2017	1,012	127	279	1,418

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2018

### 9. TANGIBLE ASSETS

	Short leasehold properties £'000	Plant and motor vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	10,454	58,288	68,742
Additions	917	3,554	4,471
Disposal	(63)	(1,847)	(1,910)
At 31 December 2018	<u>11,308</u>	<u>59,995</u>	<u>71,303</u>
<b>Accumulated depreciation</b>			
At 1 January 2018	5,811	44,763	50,574
Charge for the year	839	2,389	3,228
Disposal	(52)	(1,833)	(1,885)
At 31 December 2018	<u>6,598</u>	<u>45,319</u>	<u>51,917</u>
<b>Net book amount</b>			
At 31 December 2018	<u>4,710</u>	<u>14,676</u>	<u>19,386</u>
At 31 December 2017	<u>4,643</u>	<u>13,525</u>	<u>18,168</u>

The net book amount of tangible fixed assets includes £12,060 (2017: £16,300) in respect of finance leases and hire purchase agreements. Depreciation charged in the year on these assets amounted to £2,060 (2017: £3,150).

### 10. STOCKS

	2018 £'000	2017 £'000
Raw materials and consumables	2,938	3,881
Work in progress	456	423
Finished goods	<u>17,349</u>	<u>17,767</u>
	<u>20,743</u>	<u>22,071</u>

There is no material difference between the balance sheet value of stocks and their replacement cost. Inventories are stated after provisions for impairment of £2,307,391 (2017: £2,132,646).

### 11. DEBTORS

	2018 £'000	2017 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	29,736	26,810
Amounts owed by group undertakings	144,745	114,199
Other debtors	-	646
Deferred tax asset	628	843
Prepayments and accrued income	<u>2,309</u>	<u>2,212</u>
	<u>177,418</u>	<u>144,710</u>

## PPG ARCHITECTURAL COATINGS UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

#### 11. DEBTORS (continued)

	2018 £ 000	2017 £ 000
<b>Deferred taxation</b>		
Balance at 1 January	843	816
Profit and loss account (charge)/credit	(215)	27
<b>Balance at 31 December</b>	<b>628</b>	<b>843</b>
The amounts recognised in the financial statements are as follows:		
Difference between accumulated depreciation and amortisation and capital allowances	602	761
Short term timing differences	26	82
<b>Balance at 31 December</b>	<b>628</b>	<b>843</b>

Of the amounts owed by group undertakings £87,589,000 is interest bearing at 1.6% and the rest is not interest bearing. Trade debtors includes £108,813 (2017: £191,327) falling due after more than one year. Trade debtors are stated after provisions for impairment of £602,536 (2017: £292,898).

A deferred tax asset has been recognised as the directors consider that based on the anticipation of future taxable earnings it is more likely than not that the asset will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax laws substantively enacted at the balance sheet date.

There are no further unrecognised deferred tax assets or unprovided deferred tax liabilities other than those stated above at either year end.

#### 12. CREDITORS:

	2018 £'000	2017 £'000
<b>Amounts falling due within one year</b>		
Trade creditors	50,334	54,630
Amounts owed to group undertakings	3,648	4,089
Other taxation and social security	2,594	694
Corporation tax	1,940	3,049
Accruals and deferred income	1,933	(1,630)
	<b>60,449</b>	<b>60,832</b>

The amount owed to group undertakings are unsecured, interest free and repayable at various dates during 2019.

#### 13. CREDITORS:

	2018 £'000	2017 £'000
<b>Amounts falling due after more than one year</b>		
Finance lease creditor	334	334

## PPG ARCHITECTURAL COATINGS UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

#### 14. PROVISIONS FOR LIABILITIES

	Other provision £'000
At 1 January 2018 and 31 December 2018	17

#### 15. PENSION COMMITMENTS

The PPG Coatings (AC and PC) Pension Scheme closed to future accrual on the 5 April 2013, and was merged into the PPG Industries (UK) Limited Pension Plan – AC Division, on 6 April 2013 on a sectionalised basis. Upon closure the accrued benefits of active members ceased to be linked to final salary and will instead revalue in deferment broadly in line with increases in the Consumer Price Index ("CPI"). The most recent valuation is at 16 Apr 2016 and updated to 31 December 2018 by a qualified actuary.

The key financial assumptions used by the actuary were:

	2018 % per annum	2017 % per annum
Inflation for the financial year-Retail Price Index (RPI)	3.20	3.15
Inflation for the financial year-Customer Price Index (CPI)	2.10	2.05
Pension increases (5% LPI)	3.06	3.01
Discount rate for Division liabilities	2.95	2.55

#### Main Demographic assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements.

	2018 Years	2017 Years
Life expectancy of a male currently aged 65	21	21
Life expectancy of a female currently aged 65	23	23
Life expectancy at 65 for male currently aged 50	22	23
Life expectancy at 65 for female currently aged 50	24	24

#### Reconciliation of funded status to balance sheet

	2018 £ 000	2017 £ 000
Fair value of plan assets	200,526	210,261
Present value of funded defined benefit obligations	(157,653)	(175,352)
Funded status, net amount recognised, end of year (before deferred tax)	42,873	34,909
Unrecognised asset	(42,873)	(34,909)
Asset recognised, end of year (after deferred tax)	-	-



# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2018

### 15. PENSION COMMITMENTS (continued)

When determining the asset recognised on the balance sheet, it has been assumed that the Company is unable to recover the surplus through a refund from the Division in the future.

<i>Amounts recognised in profit and loss account</i>	2018 £'000	2017 £'000
Operating cost:		
Past service cost	230	-
Administration expenses	504	504
Actuarial loss recognised in Statement of Comprehensive Income	734	504

<i>Amounts recognised in Statement of Comprehensive Income</i>	2018 £'000	2017 £'000
Asset loss/(gain) arising during the year	9,860	(7,696)
Liability (gains)/losses arising during the year	(17,061)	2,757
Change in the effect of the asset ceiling	7,067	5,035
Actuarial (gains)/losses recognised in Statement of Comprehensive (income)/loss	(134)	96

<i>Changes to the present value of the division liabilities during the year</i>	2018 £'000	2017 £'000
Opening defined benefit obligation (DBO)	175,352	171,757
Interest expense on DBO	4,405	4,503
Actuarial (gains) loss on liabilities	(17,061)	2,757
Net benefits paid	(5,273)	(3,665)
Past service cost	230	-
Closing defined benefit obligation	157,653	175,352

<i>Changes to the fair value of the division assets during the year</i>	2018 £'000	2017 £'000
Opening fair value of division assets	210,261	200,852
Interest income on Division assets	5,302	5,282
(Loss)/gains on Division assets	(9,860)	7,696
Contributions by the company	600	600
Net benefits paid	(5,273)	(3,665)
Administration costs incurred	(504)	(504)
Closing fair value of division assets	200,526	210,261

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2018

### 15. PENSION COMMITMENTS (continued)

<i>Analysis return on Division assets</i>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Interest income on Division assets	5,302	5,282
(Loss)/gain on Division assets	<u>(9,860)</u>	<u>7,696</u>
Actual return on Division assets	<u>(4,558)</u>	<u>12,978</u>
 <i>Division assets</i>	 <b>2018</b>	 <b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Diversified Growth Funds	-	107,943
Gilts and bonds	-	91,886
Other	345	10,432
DCS	<u>200,181</u>	<u>-</u>
Combined	<u>200,526</u>	<u>210,261</u>

None of the Division's assets are invested in the Company's financial instruments or in property occupied by, or other assets used by, the Company. From May 2018, the division's invested assets are invested in a product known as Delegated Consulting Services ("DCS") whereby the Trustees have delegated decisions on asset allocation within certain parameters.

The Company expects to contribute £0.6m to the pension plan in 2019.

#### Group Personal Pension

The company pays contributions to a Group Personal Pension ("GPP") in respect of employees. The company's contributions to the GPP in the year up to 31 December 2018 were £1,983,980 (2017: £1,879,276). There are no contributions unpaid at 31 December 2018.

### 16. CALLED UP SHARE CAPITAL

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Authorised:		
65,000,000 (2017: 65,000,000) ordinary shares of £1 each	<u>65,000</u>	<u>65,000</u>
Allotted, issued and fully paid:		
350,000 (2017: 350,000) ordinary shares of £1 each	<u>350</u>	<u>350</u>

### 17. COMMITMENTS

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
a) Future capital expenditure		
Contracted for, but not provided in the financial statements	<u>334</u>	<u>258</u>
b) Leasing commitments		
The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and building payments due:	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
within 1 year	3,707	3,852
between 1 and 2 years	3,847	3,148
between 2 and 5 years	8,986	6,641
beyond 5 years	<u>8,791</u>	<u>6,882</u>

# PPG ARCHITECTURAL COATINGS UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2018

25,331

20,523

### 17. COMMITMENTS (continued)

	2018 £'000	2017 £'000
Plant and motor vehicle payments due:		
within 1 year	1,483	1,562
between 1 and 2 years	849	1,473
between 2 and 5 years	413	982
beyond 5 years	13	47
	<u>2,758</u>	<u>4,064</u>

### 18. ULTIMATE PARENT UNDERTAKING

The immediate parent company is Kalon Investment Company Limited, a company incorporated in the United Kingdom.

The directors regard PPG Industries Inc, a company incorporated and registered in the United States of America and listed on the New York Stock Exchange, as the ultimate parent company and ultimate controlling party by virtue of its 100% interest in the equity share capital of the company.

This is the largest and smallest company within which the Company's results are consolidated. Copies of its financial statements can be obtained from 2400 One PPG Place, Pittsburgh, Pennsylvania 15222-5401, USA.