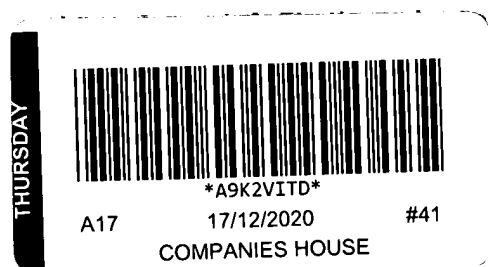


Registration number 02624692

LANXESS Solutions UK Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2019



LANXESS Solutions UK Ltd

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LANXESS Solutions UK Ltd

Company Information

Directors	Anthony John Risino Jacques Perez Ralf Guenther Krueger
Registered office	UK Finance 2nd Floor Tenax Road Trafford Park Manchester M17 1WT
Solicitors	Eversheds 1 Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland
Bankers	Bank of America 2 King Edward Street London EC1A 1HQ
Independent Auditors	PricewaterhouseCoopers LLP No 1 Spinningfields 1 Hardman Square Manchester M3 3EB

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019

Principal activities and business review

The principal activity of the Company is the manufacture of speciality chemicals, particularly brominated and phosphorous flame retardants and performance additive fluids. The Company also has a supply agreement for the manufacture of industrial water additives.

In March 2019 the Company purchased LANXESS Urethanes UK Ltd from LANXESS Solutions US Inc for a consideration of £51,537,000. This business has a manufacturing site located in Baxenden, Lancashire and manufactures and sells polyurethane prepolymers and polyurethane foam systems.

In April 2019 Trafford Park suffered a fire resulting from the failure of a capped end on a distribution pipe work. This released heated fluid above its flashpoint into the boiler house facility, causing a fire that damaged the site boiler house services. The fire was quickly contained and there were no injuries. Temporary equipment was brought in to enable the site to partially operate within ten days enabling a partial restart of the Water Additives process. By early June 2019 operations were restarted in the phosphate ester base stock facility, returning the site back to the operational status prior to the fire occurring. This was within a seven week window meaning business interruption was minimized. The remainder of the tasks to bring back the boiler house to full prior capacity with back up and standby systems was carried out across the remainder of 2019 into 2020. This resulted in capital expenditure of £1,248,000, a loss of £253,000 on disposal of fixed assets and an additional ad hoc spend of £650,000.

Strategy

The business strategy is to generate growth in sales and profitability through technology-led innovation, participating in the growth of the faster growing regions of the world, creating a performance driven culture among its employees and actively managing its business portfolio and costs. The company has three distinct business segments and the largest, bromine additives, is particularly concentrated in the Asian market, where the growth strategy has been enhanced by continuously seeking to improve logistics and product flows.

Performance during 2019

Overall turnover was up by 33% compared to the previous year, primarily driven by a significant 36% increase in sales of bromine intermediates as Asian demand continued to grow. To facilitate this and to allow for further future expansion additional isotanks were purchased during the year at a capitalised cost of £9,080,000. This business segment now accounts for almost 60% of total turnover. Sales of phosphorous flame retardants slightly increased, the market still being affected by regulatory and environmental concerns. Industrial water treatment products sales to the supply agreement partner were 26% higher, recovering from a poor performance in the previous year. Performance additive fluids sales were 46% higher than in the previous year. Gross margins relative to sales were 5.50% higher, due to favourable product mix and positive manufacturing variances.

Operating profit increased by £18,696,000 compared to the prior year. This was driven by a higher gross profit of £18,088,000 and a reduction in administrative expenses of £2,912,000 offset by an increase in distribution costs of £2,304,000.

Within administrative expenses there was an increase in foreign exchange gains of £412,000, a reduction in restructuring costs of £231,000 and a £209,000 increase in intercompany service fee income. The previous year's charge also included a pension past service cost of £1,656,000.

Profit before tax in 2019 was £40,693,000 (2018: £21,695,000) an increase of £18,998,000. There was no impact from the effects of Covid-19 in the financial year as the pandemic is a post-balance sheet date event.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

The Company's key financial performance indicators during the year were as follows:

	2019 £ 000	2018 £ 000
Turnover	137,751	103,753
Gross Profit	50,358	32,270
Operating Profit	37,963	19,267
Profit for the financial year	<u>33,329</u>	<u>18,237</u>

On time delivery to customers was 73% in 2019 compared to 76% in 2018

This measurement includes the quantity delivered against the customer order as well as the delivery time. The current year performance was adversely affected by the fire at the Trafford Park plant in April.

Safety performance	2019	2018
Plant hours worked	432,955	444,484
First aid cases	7	8
Lost time accidents	3	1
No. of lost work days	5	11
No. of incidents per 200,000 working hours	1	1
Lost time accidents per 1,000,000 hours worked	<u>5</u>	<u>3</u>

Environmental performance	2019	2018
CO2 emissions (metric tons)	<u>2,358</u>	<u>3,058</u>

The LANXESS group has set the target of becoming carbon neutral by the year 2040

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

Principal risks and uncertainties

Key risks recognised to the business and actions taken to mitigate them are:

Complying with laws and regulations

Risk description

There are continuously expanding laws and regulatory requirements in environmental, health and safety and product registration areas and we may be held responsible for any liabilities arising out of non-compliance with these laws and regulations

Mitigating actions

The directors use both internal employees and external advisors to monitor compliance with specific laws and regulations. We support the EU REACH chemical regulation program for environmental and public safety and have so far registered all the chemicals that are relevant for the company by the stipulated deadlines.

The company remains dedicated to minimizing compliance risk by fostering an open and transparent culture through continuous employee training, education and adherence to our Code of Conduct.

Safety

Risk description

As a manufacturer of chemicals we are exposed to safety risks through damage to our plant and equipment, the surrounding environment and our employees.

Mitigating actions

As a chemical site following the Control of Major Accident Hazards (COMAH) regulations which ensure that companies take all necessary measures to prevent major accidents involving dangerous substances and limit the consequences to people and the environment of any major accidents that do occur. We have a dedicated health and safety team and promote safe working conditions and practices through active engagement with our employees and visitors to the site

Foreign Exchange volatility

Risk description

Foreign exchange rates have seen significant fluctuation in recent years, particularly following the United Kingdom's decision to exit the European Union. Many of our raw materials are priced in Euros (EUR) and US Dollars (USD) and this can have a negative impact on our profitability.

Mitigating actions

Foreign exchange volatility is managed at Group level using financial derivatives to hedge exposure. The Company aids this process through weekly EUR and USD cash requirement forecasting

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

Sourcing of raw materials and energy

Risk description

Supply and prices of key raw materials and energy can be volatile, affected by economic turbulence and additional regulations. This can have a direct impact on our margins and our ability to maintain our competitive position. The continuing uncertainty surrounding Brexit has effected the pricing of raw materials purchased from the EU due to exchange rate volatility and the Company cannot be wholly certain of the long term effects of the UK leaving the EU without a trade deal.

Mitigating actions

Our procurement processes and organisation are designed to leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers. Whilst we attempt to match raw material and energy price increases with corresponding product price increases we may not be able to do so immediately. Ultimately, our ability to pass on increases depends on market conditions.

Covid-19 Pandemic

Risk description

The risk caused by the outbreak of coronavirus, which started in China in December 2019 and has been declared a Public Health Emergency by the World Health Organisation. The virus is a potential hazard to the health and safety of our employees, the ability of both our and our customers' businesses to operate normally and poses adverse risk to global supply chains and the flow of goods and services.

Mitigating actions

We are closely monitoring our employees health, safety and security and relevant regulatory requirements. We have implemented extensive hygiene control and prevention measures for our office and field-based staff, put in place temporary travel restrictions and are engaging with our customers to support their needs. We have employees engaged in working groups at the Group, regional and local levels to monitor the situation and put appropriate mitigation action and continuity plans in place.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

Section 172(1) statement

Under Section 172 of the Companies Act 2006, the Directors have a duty to promote the success of the Company over the long term for the benefit of shareholders as a whole, having regard to a range of other key stakeholders and interests

The S172 statement focuses on matters of strategic importance to the Company, and the level of information disclosed is consistent with the size and the complexity of the business. The Directors must have regard (amongst other matters) to:

(a) The likely consequences of any decision in the long term

The Company's objective is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. Throughout the year, the Board was mindful of the long-term consequences of the decisions it made, focusing on the interests of relevant stakeholders as appropriate.

(b) The interests of the Company's employees

The Company is committed to maintaining a workplace that is safe, professional and supportive of teamwork and trust and the interest of all employees is considered in major decisions. The Company is committed to creating and sustaining a work environment of mutual trust where all employees are treated with respect and dignity, compensated fairly, and are entitled to adequate and flexible working hours. The Company adopts an open approach to employee communications, with regular updates from senior management across the business divisions, both at company level and wider Group. The Company values the diversity of its people and each of its employees is recognised as an important member of our team.

(c) The need to foster the Company's business relationships with suppliers, customers and others

The Company respects the rights, values and dignity of all employees, customers, contractors, vendors and other stakeholders. The Company aims to build enduring relationships with customers, partners, suppliers and the local community.

(d) The impact of the Company's operations on the community and the environment

The Company is committed to protecting and maintaining the quality of the environment and to promoting the health and safety of its employees, contractors, suppliers, customers, visitors and the communities in which it operates. Compliance with all legislation intended to protect people, property and the environment is a fundamental priority and applies to our products as well as to our processes. The LANXESS group has declared a target of net zero carbon emissions by 2040 and the Board fully supports this and considers the actions taken in the Company to reduce water and material wastage, to conserve energy and to utilise recycled materials where possible. Management lead by example and allocate the required resources to achieve excellence in HSE performance.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company is committed to operating as a responsible corporate citizen and to complying with all relevant local, national and international laws. It has a Code of Conduct to which all employees are expected to adhere.

(f) The need to act fairly as between members of the Company

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of the Company's strategy through the long-term, taking into consideration the impact on stakeholders and the need to ensure the long-term sustainability of the Company. The Directors, in doing so, act as fairly as possible between the Company's members. Decisions on the Company's approach to investment opportunities, Capex, R&D, dividend policy and the defined benefit pension plan, taken during the course of the year, were all carefully considered against this backdrop.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2019

15/9/2020

Approved by the Board on and signed on its behalf by:



Anthony John Risino
Director

23 October 2020

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019

Directors' of the company

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

Anthony John Risino

Christopher James Flett (resigned 15 June 2020)

Jacques Perez

The following director was appointed after the year end

Ralf Guenther Krueger (appointed 15 June 2020)

Charitable and political contributions

The Company made no political contributions during the year (2018: £nil) Donations to UK charities amount to £nil (2018: £nil).

Future developments

The United Kingdom left the European Union on 31 January 2020 following three years of uncertainty for the business. We are now in a one year transition phase, during which attempts are being made to secure a trade agreement, the alternative being to leave on World Trade Organisation terms. We are confident that we are well prepared for the UK's departure from the EU and specifically the risks associated with 'No Deal'. The most significant risk identified is associated with the availability of chemicals imported into the UK. We identified this at an early stage and have ensured we have a robust process for maintaining inventory levels

The rapid spread of the COVID-19 virus has led to a significant number of infections in 2020. The measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to minimise the impact of the COVID-19 pandemic on our business, including codes of conduct on health and safety for our employees (e.g. physical distance at work and working from home where possible) and securing the supply of raw materials essential to our production process

The manufacturing plant has continued to operate and has not experienced production difficulties. At this stage, the impact on our business and earnings has been minimal, with sales revenue to June 2020 £2,300,000 ahead of the same period in the previous year. For the full financial year 2020 the company expects a revenue decline of £7,500,000 compared to the previous year, mainly driven by lower demand in the Lubricant Additives business which is being adversely affected by lower European car production. Gross margin is expected to decline by £4,500,000 year on year across the three principal business segments. In the preparation of these financial statements, the future impact of Covid-19 has been considered as part of the adoption to maintain the going concern assumption

We will continue to comply with government regulations and, in parallel, will do everything possible to continue our operations in the best possible way without endangering the health of our employees and other stakeholders

Employment of disabled persons

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2019

Employee involvement

During the year the policy of providing employees with information about the Company has been continued through Company journals, notice boards and conferences. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Engagement with suppliers, customers and other relationships

The success of the company depends on developing and maintaining open and strong relationships with all our key stakeholders. We operate with integrity, comply with laws and regulations and endeavour to treat all stakeholders of the company fairly.

We aim to differentiate our products and enhance the range of capabilities and solutions we can offer to both new and existing customers by offering innovative solutions, high quality products driven by research and development and a commitment to service and solving our customers' challenges.

The company has a stable supplier base and seeks to build long term relationships. Where possible we seek local suppliers to fulfil our requirements and work closely with our suppliers to ensure high quality and delivery standards.

Research and development

Costs of £2,309,000 (2018: £nil) have been incurred in relation to qualifying research and development expenditure. In 2019 the company retrospectively claimed RDEC for 2017 and 2018 based on qualifying expenditure of £3,352,000.

Dividends

The directors recommended dividend payments of £59,000,000 in the course of the year ended 31 December 2019 (2018: £nil).

Directors' liabilities

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the financial year and at the date of approval of the financial statements for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law.

Financial risk management

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems up to and including the date of approval of the financial statements and are satisfied that they are operating effectively. This review included financial controls that could affect the Company's business.

Disclosure of information to the auditors

The directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information of which the auditors are unaware.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2019

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 these 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 judgments 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

- as 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.

Reappointment of auditors

The auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

15/9/2020

Approved by the Board on and signed on its behalf by:



Anthony John Risino
Director

23 October 2020

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

Report on the audit of the financial statements

Opinion

In our opinion, LANXESS Solutions UK Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law), and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise the balance sheet as at 31 December 2019, the profit and loss account, 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.

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

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 on, 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, 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.

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

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.

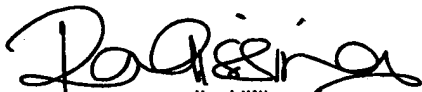
Other required reporting

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



Rebecca Gissing (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

23 October 2020

LANXESS Solutions UK Ltd

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	137,751	103,753
Cost of sales		<u>(87,393)</u>	<u>(71,483)</u>
Gross profit		50,358	32,270
Distribution costs		(4,212)	(1,908)
Administrative expenses		<u>(8,183)</u>	<u>(11,095)</u>
Operating profit	5	37,963	19,267
Interest receivable and similar income	18	7,369	7,310
Interest payable and similar expenses	19	<u>(4,639)</u>	<u>(4,882)</u>
Profit before taxation		40,693	21,695
Tax on profit	14	<u>(7,364)</u>	<u>(3,458)</u>
Profit for the financial year		<u><u>33,329</u></u>	<u><u>18,237</u></u>

The above results were derived from continuing operations

LANXESS Solutions UK Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Profit for the year		<u>33,329</u>	<u>18,237</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit asset	13	(1,205)	16,762
Deferred tax in respect of defined benefit asset	14	<u>205</u>	<u>(2,850)</u>
		<u>(1,000)</u>	<u>13,912</u>
Total comprehensive income for the year		<u><u>32,329</u></u>	<u><u>32,149</u></u>

The notes on pages 18 to 47 form an integral part of these financial statements
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LANXESS Solutions UK Ltd

**(Registration number: 02624692)
Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Property, plant and equipment	9	20,889	11,114
Intangible assets	10	492	440
Right of use assets	11, 17, 21	155	-
Investments	12	51,537	-
Pension asset	13	71,917	71,096
Deferred tax assets	14	193	1,143
		<u>145,183</u>	<u>83,793</u>
Current assets			
Stocks	15	13,865	13,783
Trade and other Receivables	16	76,344	160,885
		<u>90,209</u>	<u>174,668</u>
Creditors: Amounts falling due within one year			
Trade and other payables	17	(17,279)	(14,074)
Provisions	20	(413)	(413)
		<u>(17,692)</u>	<u>(14,487)</u>
Net current assets		<u>72,517</u>	<u>160,181</u>
Total assets less current liabilities		217,700	243,974
Deferred tax liabilities	14	(12,226)	(12,086)
Other provisions	21	(2,423)	(2,166)
Net assets		<u>203,051</u>	<u>229,722</u>
Capital and reserves			
Called up share capital	22	100,310	100,310
Share premium reserve		10,000	25,000
Profit and loss account		92,741	104,412
Total Shareholders' funds		<u>203,051</u>	<u>229,722</u>

The financial statements on pages 14 to 47 were authorised for issue and approved by the Board of Directors and signed on its behalf by.



Anthony John Risino
Director

23 October 2020

The notes on pages 18 to 47 form an integral part of these financial statements
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LANXESS Solutions UK Ltd

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	100,310	25,000	104,412	229,722
Profit for the financial year	-	-	33,329	33,329
Other comprehensive loss	-	-	(1,000)	(1,000)
Total comprehensive income	-	-	32,329	32,329
Dividends paid	-	-	(59,000)	(59,000)
Share premium reduction	-	(15,000)	15,000	-
At 31 December 2019	100,310	10,000	92,741	203,051

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	100,310	25,000	72,263	197,573
Profit for the financial year	-	-	18,237	18,237
Other comprehensive income	-	-	13,912	13,912
Total comprehensive income	-	-	32,149	32,149
At 31 December 2018	100,310	25,000	104,412	229,722

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom

The address of its registered office is

UK Finance 2nd Floor

Tenax Road

Trafford Park

Manchester

M17 1WT

United Kingdom

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

These financial statements have been prepared on a going concern basis. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The company meets its day-to-day working capital requirements through access to funds as part of the LANXESS group's cash pooling arrangement that is administered through LANXESS AG, a fellow group company, which acts as an internal bank for LANXESS subsidiaries. The company has access to funding levels that are defined, controlled and reviewed from time to time at the sole discretion of LANXESS AG as part of the contractual cash pooling terms and conditions, and either party has the right to withdraw from the agreement by giving twenty days notice, for which no reason needs to be given. Under the cash pooling arrangements, there is no cash held by the Company - all balances are 'swept' to LANXESS AG at the end of business on each day. The company therefore has a £nil cash balance.

The cash flows necessary for the day-to-day running of the company are secured by the LANXESS cash pooling arrangements which support the going concern assertion. The company has received confirmation that the Group will not withdraw the facility in the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to be cash generative, and should be expected to be a net depositor into, rather than borrower from, the LANXESS cash pooling facility.

After making enquiries, the directors have a reasonable expectation that the company has access to adequate financial and other resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

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, LANXESS AG includes the Company in its consolidated financial statements. The consolidated financial statements of LANXESS AG are prepared in accordance with IFRS and are available to the public and may be obtained from the address in note 26.

Summary of disclosure exemptions

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

- A Cash Flow Statement and related notes,
- Disclosures in respect of transactions with wholly owned subsidiaries,
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel;

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The financial statements are prepared on the historical cost basis.

Exemption from consolidation

The company is a wholly owned subsidiary of Lanxess AG. It is included in the consolidated financial statements of Lanxess AG, which are publicly available. Therefore, the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is included in Note 26. These financial statements are separate financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

The following new accounting standards, or amendments to accounting standards that impact these financial statements have become effective during the year ended 31 Dec 2019

IFRS 16 "Leases" became applicable for financial years beginning on or after 1 January 2019. Refer to Note 14 for details of the impact of this new accounting standard on the financial statements

Revenue recognition

Revenue from the sale of goods is attributable to contracts with third parties and is recognised when control over the goods has transferred to the buyer representing a single performance obligation which is satisfied upon delivery of the relevant goods

Revenue is measured net of returns, refunds or other obligations due to customers for goods returned to the seller. Revenue consists of the invoiced value for the sale of goods net of value added tax and after the deduction of customer rebates and discounts allowed. Payment is due, on average, within sixty days of delivery.

Return provisions and early settlement discounts are based on experience over an appropriate period whereas volume discounts are based on agreements with customers and expected volumes. There has been no significant change to the Company's accounting policy for revenue as a result of the adoption of IFRS 15 from 1 January 2018.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

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.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

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 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.

Investments

Investments in subsidiaries are accounted for at cost less, where appropriate, allowances for impairment.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Buildings (within Land & Buildings)	Equal instalments over 40 years
Plant & Machinery	Equal instalments between 3 and 15 years

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets comprise REACH costs, which is an EU regulation covering the Registration, Evaluation, Authorisation and restriction of Chemicals.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Other intangible assets	Equal instalments over 12 years

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Trade debtors

Trade 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.

For trade receivables, the entity recognises an allowance for the expected credit losses for customers and other receivables. As permitted by IFRS 9 the entity applies the simplified approach which requires lifetime credit losses to be recognised from initial recognition of the receivables. An estimate is made of the ECL based on the entities historical default rates as well as forward looking estimates at the end of each reporting period. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to the income statement as they are recognised.

Inventories

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, the impairment loss is recognised immediately in profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Leases

The company leases land and buildings, equipment and vehicles. Rental contracts are typically made for periods of 6 months to 8 years but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interest in the leased assets that are held by the lessor. Leased assets may not be used as a security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases and payments made under these operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- a) Fixed payments, less any lease incentives available,
- b) Penalty payments for terminating the lease, if the lease term reflects the company exercising that option,
- c) Amounts expected to be payable by the company under residual value guarantees

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and options.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- a) The amount of the initial measurement of lease liability;
- b) Any lease payments made at or before the commencement date less any lease incentives received,
- c) Any initial direct costs, and
- d) Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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 profit and loss account in the years 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 plans, and other post employment benefits, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, 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 year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year 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 profit or loss.

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 profit or loss 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.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

3 Critical accounting judgments and key sources of estimation uncertainty

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. See note 16 for the disclosures of the defined benefit pension scheme.

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/ assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation or the outcome of the final review by tax authorities and tax courts of tax returns.

Environmental provisions

The company is exposed to environmental regulations in the UK and significant judgment is required in determining the provision for environmental remediation. We monitor the site to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The company recognizes liabilities for environmental remediation based on the latest assessment of the environmental situation of the site and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts previously recorded, such differences impact the income statement in the period in which such determination is made.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

4 Turnover

The analysis of the Company's revenue for the year from continuing operations, is as follows

	2019 £ 000	2018 £ 000
Turnover by destination:		
Europe	137,366	101,962
Americas	19	1,500
Asia	366	291
	<u>137,751</u>	<u>103,753</u>

Turnover has not been disaggregated by category as all turnover is derived from one category, i.e. the sale of goods

5 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	1,889	1,866
Other Intangibles amortisation	47	24
Foreign exchange gain	(608)	(196)
Fire damage costs	650	-
Government grants	(3)	(4)
Reorganisation costs	93	324
Lease costs	60	189
Defined benefit pension scheme past service cost	-	1,656
Loss on sale of fixed assets	253	-
Effect of discount rate changes on environmental provision	<u>198</u>	<u>(864)</u>

Reorganisation costs of £93,000 relate to severance payments (2018: Reorganisation costs of £324,000 included severance payments of £70,000 and retention bonus payments of £254,000)

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows

	2019	2018
	£ 000	£ 000
Wages and salaries	9,172	8,845
Social security costs	982	930
Pension costs, defined contribution scheme	484	438
	<u>10,638</u>	<u>10,213</u>

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

	2019	2018
	No.	No.
Production	73	89
Administration and support	113	95
	<u>186</u>	<u>184</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows.

	2019	2019
	£ 000	£ 000
Remuneration	<u>493</u>	<u>307</u>

During the year the number of directors who were receiving benefits and share incentives, totalling £104,000 (2018 £50,000), was as follows

	2019	2018
	No.	No.
Received or were entitled to receive shares under long term incentive schemes	2	1
Exercised share options	<u>2</u>	<u>1</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

7 Directors' remuneration (continued)

In respect of the highest paid director

	2019	2018
	£ 000	£ 000
Remuneration	253	124
Benefits under long-term incentive schemes (excluding shares)	34	137
Company contributions to money purchase pension schemes	-	9
	<u>287</u>	<u>270</u>

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

8 Audit fees

	2019	2018
	£ 000	£ 000
Audit of these financial statements	<u>72</u>	<u>69</u>

Fees for non-audit services paid to the Company's auditors were £4,000 (2018 £4,000) for VAT online subscriptions

The notes on pages 18 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

9 Property, plant and equipment

	Land and buildings £ 000	Plant & Machinery £ 000	Total £ 000
Cost or valuation			
At 1 January 2018	5,921	58,558	64,479
Additions	-	824	824
Transfers	42	(42)	-
At 31 December 2018	5,963	59,340	65,303
At 1 January 2019	5,963	59,340	65,303
Additions	-	11,917	11,917
Disposals	(226)	(440)	(666)
Transfers	1,210	(1,210)	-
At 31 December 2019	6,947	69,607	76,554
Accumulated depreciation			
At 1 January 2018	3,724	48,599	52,323
Charge for the year	102	1,764	1,866
At 31 December 2018	3,826	50,363	54,189
At 1 January 2019	3,826	50,363	54,189
Charge for the year	130	1,759	1,889
Disposals	(122)	(291)	(413)
At 31 December 2019	3,834	51,831	55,665
Carrying amount			
At 31 December 2019	3,113	17,776	20,889
At 31 December 2018	2,137	8,977	11,114

There are contractual commitments on capital expenditure of £180,000 (2018 £269,000)

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

10 Intangible assets

	Other intangible assets £ 000	Total £ 000
Cost or valuation		
At 1 January 2018	236	236
Additions	228	228
At 31 December 2018	464	464
At 1 January 2019	464	464
Additions	99	99
At 31 December 2019	563	563
Accumulated amortisation		
At 1 January 2018	-	-
Amortisation charge	24	24
At 31 December 2018	24	24
At 1 January 2019	24	24
Amortisation charge	47	47
At 31 December 2019	71	71
Carrying amount		
At 31 December 2019	492	492
At 31 December 2018	440	440

Other intangible assets relate to capitalised REACH costs, which is a European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals

Intangible asset amortisation of £47,000 (2018: £24,000) has been charged in Administrative expenses.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

11 Leases

The company has lease contracts for property and equipment used in the operations. The amounts recognised in the financial statements in relation to leases are as follows:

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets

	2019 £ 000	2018 £ 000
Property	89	-
Equipment	66	-
Total	155	-

Lease liabilities

	2019 £ 000	2018 £ 000
Current	90	-
Non-current	66	-
Total	156	-

(ii) Amounts recognised in the Profit and Loss Account

The Profit and Loss account shows the following amounts relating to leases:

Depreciation charge of right-of-use assets

	2019 £ 000	2018 £ 000
Property	(54)	-
Equipment	(86)	-
Total	(140)	-

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

11 Leases (continued)

	2019 £ 000	2018 £ 000
Interest expense included in finance cost (note 19)	(4)	-
Expense relating to short-term leases (included in Cost of sales)	<u>(144)</u>	<u>(189)</u>
Total	<u>(148)</u>	<u>(189)</u>
Future minimum lease payments as at 31 December 2019 are as follows		
	2019 £ 000	2018 £ 000
Not later than one year	90	5
Later than one year and not later than five years	209	365
Impact of finance expenses	<u>(143)</u>	<u>-</u>
Carrying amount of liability	<u>156</u>	<u>370</u>

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. The comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

Total cash outflow for leases in 2019 was £177,000 (2018: £189,000)

12 Investments

Shares in group undertakings	£ 000
Cost	
At beginning of year	-
Additions	<u>51,537</u>
At end of year	51,537
Provision	
At beginning of year	-
At end of year	<u>-</u>
Net book value	
At 31 December 2019	<u>51,537</u>
At 31 December 2018	<u>-</u>

The Directors consider the carrying value of the investment to be supported by the underlying assets and future trading

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

12 Investments (continued)

Details of the subsidiaries as at 31 December 2019 are as follows

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2019	2018
LANXESS Urethanes UK Ltd	Chemicals manufacturer	United Kingdom	100%	0%

The registered address of LANXESS Urethanes UK Ltd is Paragon Works, Baxenden, Lancashire, BB5 2SL and the investment is a direct holding

13 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £484,000 (2018: £438,000).

Defined benefit pension schemes

Great Lakes (UK) Ltd Pension Plan

LANXESS Solutions UK Ltd, ("the Company"), operates a defined benefit arrangement called the Great Lakes (UK) Limited Pension Plan ("the Scheme"). The Scheme also has a defined contribution section. The defined benefit scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004.

The scheme is managed by a board of Trustees appointed in part by the Company and in part from elections by members of the scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

The Scheme closed to future benefit accrual with effect from 31 May 2008, although a link to Final Pensionable Salary at the date a member leaves employment has been retained. There were no scheme amendments, curtailments or settlements during the period under review.

A valuation of the Scheme is carried out at least every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

Contributions paid to the pension scheme in the year were £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

The scheme was most recently valued on 31 December 2017. The next valuation of the Scheme is due at 31 December 2020.

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Pension and other schemes (continued)

Risks

Investment risk

The Scheme holds assets in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if deficits emerge

Interest risk

The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds different assets such as equities the value of the assets may not move in the same way

Inflation risk

A significant proportion of the benefits under the scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging

Life expectancy risk

In the event that members live longer than assumed a deficit will emerge in the Scheme

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows

	2019 £ 000	2018 £ 000
Fair value of scheme assets	253,360	238,318
Present value of scheme liabilities	<u>(181,443)</u>	<u>(167,222)</u>
Defined benefit pension scheme surplus	<u>71,917</u>	<u>71,096</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Fair value at start of year	238,318	250,347
Interest income	6,661	6,272
Remeasurement gains/(losses)	17,582	(9,523)
Benefits paid	<u>(9,201)</u>	<u>(8,778)</u>
Fair value at end of year	<u>253,360</u>	<u>238,318</u>

The notes on pages 18 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Cash and cash equivalents	46,707	15,688
Debt instruments	206,653	222,630
	<u>253,360</u>	<u>238,318</u>

Actual return on scheme's assets

	2019 £ 000	2018 £ 000
Actual return/(loss) on scheme assets	<u>24,243</u>	<u>(3,251)</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2019 £ 000	2018 £ 000
Present value at start of year	167,222	195,749
Past service cost	-	1,656
Remeasurement losses/(gains) arising from changes in demographic assumptions	1,215	(8,738)
Remeasurement losses/(gains) arising from changes in financial assumptions	17,572	(6,969)
Remeasurement losses/(gains) arising from experience adjustments	-	(10,578)
Interest cost	4,635	4,880
Benefits paid	<u>(9,201)</u>	<u>(8,778)</u>
Present value at end of year	<u>181,443</u>	<u>167,222</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Pension and other schemes (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the balance sheet date are as follows:

	2019	2018
	%	%
Mortality rate	1.00	1.00
Future pension increases	2.15	2.30
Discount rate	2.05	2.85
Inflation (RPI)	<u>2.95</u>	<u>3.40</u>

Post retirement mortality assumptions

	2019	2018
	Years	Years
Current UK pensioners at retirement age - male	21.60	21.70
Current UK pensioners at retirement age - female	23.00	23.90
Future UK pensioners at retirement age - male	22.80	23.00
Future UK pensioners at retirement age - female	<u>25.30</u>	<u>25.50</u>

Amounts recognised in the income statement

	2019	2018
	£ 000	£ 000
Amounts recognised in operating profit		
Past service cost	-	1,656
Amounts recognised in finance income or costs		
Net interest	<u>(2,026)</u>	<u>(1,392)</u>
Total recognised in the income statement	<u>(2,026)</u>	<u>264</u>

The 2018 past service cost charge of £1,656,000 related to the requirement to equalise benefits between men and women to allow for differences in the Guaranteed Minimum Pension (GMP)

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	2019 £ 000	2018 £ 000
Remeasurement losses/(gains) arising from changes in demographic assumptions	1,215	(8,738)
Remeasurement losses/(gains) arising from changes in financial assumptions	17,572	(6,969)
Remeasurement losses/(gains) arising from experience adjustments	-	(10,578)
Actual return less expected return on scheme assets	(17,582)	9,523
Amounts recognised in the Statement of Comprehensive Income	<u>1,205</u>	<u>(16,762)</u>

History of experience gains and losses

	2019 £ 000	2018 £ 000	2017 £ 000	2016 £ 000	2015 £ 000
Defined benefit obligation	(181,443)	(167,222)	(195,749)	(208,036)	(167,048)
Fair value of plan assets	<u>253,360</u>	<u>238,318</u>	<u>250,347</u>	<u>242,537</u>	<u>196,275</u>
Surplus	<u>71,917</u>	<u>71,096</u>	<u>54,598</u>	<u>34,501</u>	<u>29,227</u>

Experience adjustments

	2019 £ 000/%	2018 £ 000/%	2017 £ 000/%	2016 £ 000/%	2015 £ 000/%
Difference between the expected and actual return on plan assets	(17,582)	9,523	(7,718)	(38,009)	7,375
As a percentage of plan assets	(7) %	4 %	(3) %	(16) %	4 %
Experience adjustments on plan liabilities	-	(10,578)	-	-	(5,136)
As a percentage of present value of plan liabilities	<u>-</u>	<u>(6)</u>	<u>- %</u>	<u>-</u>	<u>(3)</u>

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Pension and other schemes (continued)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2019				2018	
Adjustment to discount rate	+ .25%	0.0%	- .25%	+ .25%	0.0%	- .25%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>174,160</u>	<u>181,443</u>	<u>189,187</u>	<u>160,854</u>	<u>167,222</u>	<u>173,985</u>
	2019				2018	
Adjustment to rate of inflation	+ 0.25%	0.0%	- 0.25%	+ 0.25%	0.0%	- 0.25%
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>185,667</u>	<u>181,443</u>	<u>177,823</u>	<u>170,435</u>	<u>167,222</u>	<u>164,304</u>
	2019				2018	
Adjustment to mortality age rating assumption	+ 1 Year	None	- 1 Year	+ 1 Year	None	- 1 Year
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	<u>175,142</u>	<u>181,443</u>	<u>188,537</u>	<u>161,004</u>	<u>167,222</u>	<u>173,504</u>

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (that is, present value of the defined benefit asset calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension asset recognised within the balance sheet.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

14 Tax on profit

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
Current tax on profits for the year	6,084	2,939
UK corporation tax adjustment to prior periods	(15)	(109)
	<u>6,069</u>	<u>2,830</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,465	673
Arising from changes in tax rates and laws	(154)	(71)
Adjustments in respect of prior periods	(16)	26
Total deferred taxation	<u>1,295</u>	<u>628</u>
Tax expense in the income statement	<u>7,364</u>	<u>3,458</u>

Tax income included in other comprehensive income

Current tax £nil (2018: nil). Deferred tax arising from origination and reversal of temporary differences £(205,000) (2018: £2,850,000)

Tax expense for the year is higher (2018: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19.00% (2018: 19.00%)

The differences are reconciled below

	2019 £ 000	2018 £ 000
Profit before taxation	<u>40,693</u>	<u>21,695</u>
Profit multiplied by the standard rate of tax in the UK of 19.00% (2018: 19.00%)	7,732	4,122
Decrease from adjustment for prior periods	(31)	(83)
Increase from effect of expenses not deductible	(6)	9
Group relief claimed	(177)	(519)
Changes in tax rates or laws	(154)	(71)
Total tax charge	<u>7,364</u>	<u>3,458</u>

The notes on pages 18 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

14 Tax on profit (continued)

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020.

Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However, the Budget which took place on 11 March 2020 confirmed the rate of corporation will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 27 March 2020 by way of a special resolution. Had the 19% rate been substantively enacted at the balance sheet date the impact on the closing deferred tax balances at 31 December 2019 would be £1,415,636.

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2019			
Accruals	32	-	32
Tax losses carry-forwards	-	-	-
Accelerated tax depreciation	161	-	161
Pension benefit obligations	-	(12,226)	(12,226)
	<u>193</u>	<u>(12,226)</u>	<u>(12,033)</u>
2018			
Accruals	364	-	364
Tax losses carry-forwards	-	-	-
Accelerated tax depreciation	779	-	779
Pension benefit obligations	-	(12,086)	(12,086)
	<u>1,143</u>	<u>(12,086)</u>	<u>(10,943)</u>

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

14 Tax on profit (continued)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in Profit and Loss £ 000	Recognised in Statement of Comprehensive Income £ 000	At 31 December 2019 £ 000
Accruals	364	(332)	-	32
Tax losses carry-forwards	-	-	-	-
Accelerated tax depreciation	779	(618)	-	161
Pension benefit obligations	(12,086)	(345)	205	(12,226)
Net tax liabilities	<u>(10,943)</u>	<u>(1,295)</u>	<u>205</u>	<u>(12,033)</u>

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in Profit and Loss £ 000	Recognised in Statement of Comprehensive Income £ 000	At 31 December 2018 £ 000
Accruals	728	(364)	-	364
Tax losses carry-forwards	62	(62)	-	-
Accelerated tax depreciation	1,027	(248)	-	779
Pension benefit obligations	(9,282)	46	(2,850)	(12,086)
Net tax liabilities	<u>(7,465)</u>	<u>(628)</u>	<u>(2,850)</u>	<u>(10,943)</u>

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. There are no unrecognised tax losses (2018: £nil). There is no expiry date on tax losses carried forward.

15 Stocks

	2019 £ 000	2018 £ 000
Raw materials and consumables	1,262	1,331
Work in progress	5,424	3,033
Finished goods and goods for resale	<u>7,179</u>	<u>9,419</u>
	<u>13,865</u>	<u>13,783</u>

Stock is stated after provisions for impairment of £1,257,000 (2018: £864,000).

The cost of stock recognised as an expense in the year amounted to £81,326,000 (2018: £63,928,000).

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

15 Stocks (continued)

There is no significant difference between the replacement cost of Work in progress and Finished goods and goods for resale and their carrying amounts.

16 Trade and other Receivables

	2019 £ 000	2018 £ 000
Trade receivables	171	98
Amounts owed by group undertakings	75,653	160,286
Prepayments	359	443
Other receivables	161	58
Total current trade and other receivables	<u>76,344</u>	<u>160,885</u>

Amounts owed by group undertakings are currently subject to interest at a rate of 0.71% (2018: 0.78%), unsecured and repayable on demand.

Trade receivables and Other receivables are stated after provisions for impairment of £1,000 (2018: £1,000).

17 Trade and other Payables

	31 December 2019 £ 000	31 December 2018 £ 000
Trade creditors	7,525	7,124
Accrued expenses	1,839	2,288
Amounts due to related parties	4,910	1,816
Social security and other taxes	52	499
Corporation tax	2,863	2,347
Leases	90	-
	<u>17,279</u>	<u>14,074</u>

Amounts owed to group undertakings are interest free, unsecured and repayable on demand.

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. Thus, the comparative lease liabilities presented are based on IAS 17 while for the current year are based on IFRS 16.

The notes on pages 18 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

18 Interest receivable and similar income

	2019	2018
	£ 000	£ 000
Interest income on financial assets	708	1,038
Interest income on pension scheme assets (note 16)	6,661	6,272
	<u>7,369</u>	<u>7,310</u>

Interest receivable and similar income includes income from group undertakings of £708,000 (2018: £1,038,000)

19 Interest payable and similar expenses

	2019	2018
	£ 000	£ 000
Interest expense on pension scheme liabilities (note 16)	4,635	4,880
Total interest expense on financial liabilities measured at amortised cost	-	2
Interest expense on leases	4	-
	<u>4,639</u>	<u>4,882</u>

20 Provisions

	2019	2018
	£ 000	£ 000
Environmental reserve	<u>413</u>	<u>413</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

21 Other provisions

	Dilapidation Reserve £ 000	Deferred other income £ 000	Supply agreement reserve £ 000	Environ't reserve £ 000	Leases £000	L/T share plan £ 000	Total £ 000
At 1 January 2019	59	-	850	1,224	-	33	2,166
Increase in existing provisions	-	37	-	-	66	-	103
Provisions utilised	-	(1)	-	-	-	-	(1)
Increase due to change in discount rate	-	-	-	198	-	-	198
Decrease due to foreign exchange differences	-	-	(26)	-	-	-	(26)
Decrease from transfers and other changes	-	-	-	-	-	(17)	(17)
At 31 December 2019	<u>59</u>	<u>36</u>	<u>824</u>	<u>1,422</u>	<u>66</u>	<u>16</u>	<u>2,423</u>

Of the £1,835,000 total Environmental reserve, £413,000 is considered to be current.

The Dilapidation Reserve relates to cleaning costs for rented isotanks and other equipment. The Deferred other income balance is a three year deferred credit on telephone line charges from a supplier and the Supply agreement reserve is a contractual item relating to the return of raw materials on the termination of the industrial water treatment supply agreement contract. The L/T share plan balance relates to employee share incentives greater than one year and the Lease balance relates to IFRS 16 lease expirations greater than one year. The Environmental reserve is in place to allow for site remediation work should plant operations cease permanently.

22 Called up share capital

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>100,310</u>	<u>100,310</u>	<u>100,310</u>	<u>100,310</u>

23 Dividends

Dividends totalling £59,000,000 (2018: £nil) were paid to the Company's immediate parent LANXESS Holding UK Ltd in the course of the year.

The notes on pages 18 to 47 form an integral part of these financial statements

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

24 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £180,000 (2018 - £269,000)

Lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases (under IAS 17) are

	2019 £ 000	2018 £ 000
Not later than one year	33	5
Later than one year and not later than five years	29	365
Carrying amount of liability	62	370

25 Events after the end of the reporting period

In December 2019 the Trustees of the Great Lakes Pension fund agreed to purchase an insurance policy from Aviva, a regulated UK life insurer, which is designed to cover all of the benefits payable to members under the Plan and will provide funds to pay Plan benefits to members now and in the future. This change took effect from January 2020 onwards

Since 2005 the company has manufactured industrial water treatment products for a supply agreement partner. In 2020 the partner, Italmatch Chemicals GB Ltd, decided to terminate the supply agreement contract as from November 2020. In 2019 revenue from this contract was £15,500,000. A project is in place to examine strategies for bringing in new product lines and a comprehensive review of plant structures and future efficiency and cost reduction measures is being undertaken.

In September 2020 the company paid a dividend in specie to its immediate parent LANXESS Holding UK Unlimited amounting to £7,001,000 relating to a distribution of an historic intercompany balance with this entity

26 Parent and ultimate parent undertaking

The ultimate parent company at the year end and the largest group in which these financial statements are consolidated is LANXESS AG.

The address of LANXESS AG is Kennedyplatz 1, Cologne 50569, Germany

The Company's immediate parent undertaking is LANXESS Holding UK Unlimited, which is exempt from the requirement to prepare group financial statements under Section 400 of the Companies Act 2006

The notes on pages 18 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

27 Effect of adoption of IFRS 16 - Leases

As indicated in note 13, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.7%.

i) Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- a) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- b) Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019.
- c) Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- d) Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Agreement contains a lease.

ii) Measurement of lease liabilities

	2019 £ 000
Operating lease commitments disclosed as at 31 December 2018	370
(Less) short-term leases not recognised as a liability	(5)
(Less) low-value assets not recognised as a liability	(64)
Nominal value of lease liabilities as at 1 January 2019	<u>301</u>
Discounting applied	(6)
Present value of lease liabilities as at 1 January 2019	<u>295</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2019

27 Effect of adoption of IFRS 16 - Leases (continued)

Of which are

	2019 £ 000
Current	-
Non-current	295
Total	<u>295</u>

iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018

iv) Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position as at 1 January 2019

- Right-of-use assets - increase by £295,000
- Lease liabilities - increase by £295,000

The net impact on retained earnings on 1 January 2019 was £nil

v) Lessor accounting

The company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of adoption of IFRS 16.