

Registration number: 02624692

LANXESS Solutions UK Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2017



LANXESS Solutions UK Ltd

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LANXESS Solutions UK Ltd

Company Information

Directors	Anthony J Risino Christopher James Flett Kiern Mark O'Connor
Registered office	Tenax Road Trafford Park Manchester M17 1WT
Solicitors	Eversheds 1 Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland
Bankers	Bank of America 2 King Edward St London EC1A 1HQ
Independent Auditors	PricewaterhouseCoopers LLP No.1 Spinningfields Hardman Square Manchester M3 3EB

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activities

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.

Strategy and future outlook

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 intends to continue in the area of manufacture of speciality chemicals for the foreseeable future.

On 21st April 2017 LANXESS AG successfully completed the acquisition of the Chemtura Corporation and in June 2017 the Company changed its name from Chemtura Manufacturing UK Limited to LANXESS Solutions UK Ltd.

LANXESS Solutions UK Ltd has a manufacturing site in Trafford Park, Manchester, an isotank repair facility in Deeside, Flintshire and is part of the LANXESS global chemical business.

Performance during 2017

Overall turnover was up by 16% compared to the previous year, primarily driven by a substantial 35% increase in sales of bromine intermediates as Asian demand for bromine strengthened. Sales of phosphorous flame retardants showed a slight increase. Industrial Water Treatment sales to the supply agreement partner increased by 18% which countered a decline of 23% in the previous year. Performance Additive Fluids sales were 8% lower over the year. Gross margins relative to sales were 4% lower than in the previous year, partly driven by negative inventory adjustments. and higher supply chain costs.

Operating profit decreased by £1,557,000 compared to the previous year. This was driven by £545,000 higher distribution costs, a slightly reduced gross profit and an increase in administrative costs of £795,000, of which £700,000 are reorganisation expenses following the acquisition by Lanxess.

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

	2017 £ 000	2016 £ 000
Turnover	86,856	75,037
Gross Profit	18,488	18,702
Operating profit	8,974	10,531
Profit for the financial year	<u>9,022</u>	<u>10,789</u>

On time delivery to customers was 92% in 2017 compared to 93% in 2016.

Safety performance	2017	2016
Plant hours worked	432,319	412,934
First aid cases	4	6
Lost time accidents	-	1
No. of lost work days	<u>-</u>	<u>15</u>

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2017

Principal risks and uncertainties

Key risks recognised to the business and the 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 COMAH regulations, the Company takes all necessary measures to prevent major accidents involving dangerous substances and aims to limit the consequences to people and the environment of any major accidents which may occur in the future. 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.

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.

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.

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 and US Dollars and this can have a negative impact on our profitability.

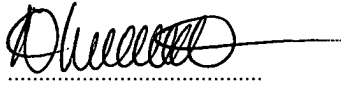
Mitigating actions

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 2017

Approved by the Board on 24/9/2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Anthony J Risino', written over a dotted line.

Anthony J Risino
Director

Tenax Road
Trafford Park
Manchester
M17 1WT

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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:

Billie S Flaherty (resigned 21 April 2017)

Stephen C Forsyth (resigned 21 April 2017)

Anthony J Risino

Christopher James Flett (appointed 21 April 2017)

Kiern Mark O'Connor (appointed 21 April 2017)

Charitable and political contributions

The Company made no political contributions during the year (2016: *nil*). Donations to UK charities amounted to £nil (2016: *nil*).

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.

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.

Future developments

Although the global economy continued to strengthen overall in 2017, growth within the EU remains subdued and risks to economic growth remain.

Research and development

Costs of £nil (2016: £nil) have been incurred in relation to research and development.

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 Dec 2017 (2016: £nil)

Directors' liabilities

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force 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. This review included financial controls that could affect the Company's business.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2017

Disclosure of information to the auditors

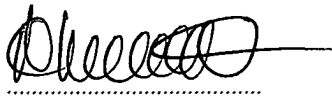
The directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information of which the auditors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

Reappointment of auditors

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

Following the change in ownership, the new ultimate parent company's auditors, PricewaterhouseCoopers LLP, were appointed as auditors.

Approved by the Board on 24/9/2018 and signed on its behalf by:



Anthony J Risino
Director

LANXESS Solutions UK Ltd

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 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 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 to ensure that the financial statements comply with the Companies Act 2006.

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 Solution UK Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 2017; 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

We have nothing to report in respect of the following matters in relation to which 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.

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 or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

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 2017 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, 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.

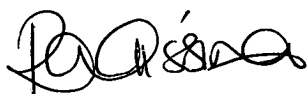
Other required reporting

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
September 2018

26/9/18

LANXESS Solutions UK Ltd

Profit and Loss Account for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Turnover	4	86,856	75,037
Cost of sales		<u>(68,368)</u>	<u>(56,335)</u>
Gross profit		18,488	18,702
Distribution costs		(1,628)	(1,080)
Administrative expenses		<u>(7,886)</u>	<u>(7,091)</u>
Operating profit	5	8,974	10,531
Other interest receivable and similar income	9	7,169	8,603
Interest payable and similar expenses	10	<u>(5,390)</u>	<u>(6,273)</u>
Profit before taxation		10,753	12,861
Tax on profit	11	<u>(1,731)</u>	<u>(2,072)</u>
Profit for the financial year		<u><u>9,022</u></u>	<u><u>10,789</u></u>

The above results were derived from continuing operations.

LANXESS Solutions UK Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Profit for the financial year		<u>9,022</u>	<u>10,789</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit asset	12	16,123	(5,111)
Deferred tax in respect of defined benefit asset	11	<u>(2,741)</u>	<u>942</u>
		<u>13,382</u>	<u>(4,169)</u>
Total comprehensive income for the year		<u><u>22,404</u></u>	<u><u>6,620</u></u>

The notes on pages 15 to 36 form an integral part of these financial statements.

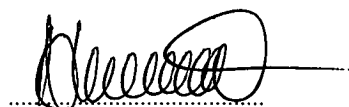
LANXESS Solutions UK Ltd

(Registration number: 02624692)
Balance Sheet as at 31 December 2017

		2017	Restated*
	Note	£ 000	2016 £ 000
Non-current assets			
Intangible assets	13	236	-
Property, plant and equipment	14	12,156	13,743
Pension asset	12	54,598	34,501
		<u>66,990</u>	<u>48,244</u>
Current assets			
Stocks	15	9,990	12,111
Trade and other Receivables	16	143,970	131,404
Cash at bank and in hand		<u>1</u>	<u>1</u>
		153,961	143,516
Creditors: Amounts falling due within one year			
Trade and other payables	17	<u>(12,547)</u>	<u>(9,277)</u>
Net current assets		<u>141,414</u>	<u>134,239</u>
Total assets less current liabilities		208,404	182,483
Deferred tax liabilities	11	(7,465)	(3,109)
Other provisions	18	<u>(3,366)</u>	<u>(4,205)</u>
Net assets		<u>197,573</u>	<u>175,169</u>
Capital and reserves			
Called up share capital	19	100,310	100,310
Share premium reserve		25,000	25,000
Profit and loss account		<u>72,263</u>	<u>49,859</u>
Shareholders' funds		<u>197,573</u>	<u>175,169</u>

*See note 23 for details regarding the prior year restatement.

The financial statements were approved by the Board of Directors on 24/9/2018 and signed on its behalf by:



Anthony J Risino
 Director

LANXESS Solutions UK Ltd

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017 (restated)*	100,310	25,000	49,859	175,169
Profit for the year	-	-	9,022	9,022
Other comprehensive gain	-	-	13,382	13,382
Total comprehensive income	-	-	22,404	22,404
At 31 December 2017	100,310	25,000	72,263	197,573

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2016	100,310	25,000	43,239	168,549
Profit for the year	-	-	10,789	10,789
Other comprehensive loss	-	-	(4,169)	(4,169)
Total comprehensive income	-	-	6,620	6,620
At 31 December 2016 (restated)*	100,310	25,000	49,859	175,169

*See note 23 for details regarding the prior year correction.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

1 General information

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

The address of its registered office is:

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

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.

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.

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 22.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

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;
- The requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of paragraph 40 (a-d) IAS 1;
- Disclosures in respect of related party transactions;
- 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.

Changes in accounting policy

New standards, amendments and interpretations

No new accounting standards, or amendments to accounting standards that impact these financial statements have become effective during the year ended 31 Dec 2017.

The following new standards, interpretations and amendments, which have not been applied in these financial statements may have an effect on the future financial statements:

Financial instruments

In July 2014, the ISA published the final version of IFRS 9. This contains revised regulations for the classification and measurement of financial assets and liabilities as well as rules on the impairment of financial instruments. Besides already incurred losses, the expected credit loss model is used to anticipate and recognize expected future losses. Further, the standard introduces new rules on hedge accounting. The new standard was endorsed by the E.U. in November 2016 and is to be applied for annual reports beginning on or after 1 January 2018. The LANXESS Group utilizes the exemption from retrospective application of the standard and applies it prospectively from 1 January 2018, for the classification, measurement and impairment of financial instruments. In contrast, the new requirements for hedge accounting will be applied retrospectively. The IASB published further amendments to IFRS 9 in October 2017. They relate to early repayment options with negative prepayment penalties and are to be applied for annual periods beginning on or after 1 January 2019.

The conversion to the new IFRS 9 requirement is expected to not materially impact LANXESS Solutions UK Ltd.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Revenue from contracts with customers

The IASB published the new standard IFRS 15 on May 28, 2014. IFRS 15 primarily supersedes IAS 11 and IAS 18 and introduces a five step-step model containing basic principles for revenue recognition. The basic principles relate, in particular, to the allocation of revenues to distinct performance obligations and the associated revenues and rules on the timing of revenue recognition. The standard also introduces contract assets and contract liabilities as line items in the statement of financial position for differences between the revenue recognised in accordance with IFRS 15 and goods and services invoiced. The standard also contains further rules on specific issues and requires additional disclosures in the notes on the type, level, timing and uncertainties relating to revenues from contracts with customers. As a result of the amendment to IFRS 15 published in September 2015, the date of initial application has been postponed from January 2017, to annual periods beginning on or after 1 January 2018. In April 2016, the IASB published further clarifications relating to simplifications for first- time application, the identification of performance obligations, the definition of principal versus agent, and recognition of license revenues. While the E.U. endorsed the standard in September 2016, the clarifications were endorsed in October 2017.

Management are in the process of assessing the impact of IFRS 15 on the local contracts. The application of the new rules from 1 January 2018 is not expected to have significant effects compared to the current recognition of revenue.

Leases

On 13 January 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. Under IFRS 16, lessees will recognize all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. Depreciation and amortization on the capitalised right-of-use asset and interest expense for compounding the lease liabilities are recorded in the income statement. For lessees, the distinction between operating and finance leases is abolished. The new standard also contains options for the treatment of short-term leases and leases of low value. If these options are applied, the cost of these leases are expensed immediately. There are no significant changes for lessors. The new standard is to be applied for annual periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 is applied. The standard was endorsed by the E.U. in October 2017. The LANXESS Group will apply the new standard from 1 January 2019.

There is a project under way to assess the impact IFRS 16 is likely to have on the financial statements.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

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 period 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. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the 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.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position 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
Land & Buildings

Depreciation method and rate
Equal instalments over 40 years

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Plant & Machinery

Equal instalments between 3 and 15 years

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

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.

Trade receivables are recognised initially at fair value. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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.

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.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

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.

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 periods during which services are rendered by employees.

Defined benefit plans

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

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

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

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

3 Critical accounting judgements 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 18 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.

Stock provisions

The company writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

4 Turnover

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

	2017 £ 000	2016 £ 000
Turnover by destination:		
Europe	86,378	74,785
Americas	132	-
Asia	346	252
	<u>86,856</u>	<u>75,037</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

5 Operating profit

Arrived at after charging/(crediting)

	2017	2016
	£ 000	£ 000
Depreciation expense	2,168	2,160
Foreign exchange loss	410	1,227
Audit of the financial statements	75	29
Government grants	(5)	(5)
Reorganisation costs	701	(2)
Lease costs	139	141
Loss on disposal of fixed assets	<u>30</u>	<u>-</u>

Reorganisation costs of £701,000 include severance payments of £407,000 and retention bonuses of £294,000 following the LANXESS AG acquisition of Chemtura Corporation in April 2017.

6 Staff costs

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

	2017	2016
	£ 000	£ 000
Wages and salaries	8,151	7,777
Social security costs	950	907
Other pension costs, defined contribution scheme	<u>428</u>	<u>393</u>
	<u>9,529</u>	<u>9,077</u>

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

	2017	2016
	No.	No.
Production	84	83
Administration and support	<u>96</u>	<u>97</u>
	<u>180</u>	<u>180</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017	2016
	£ 000	£ 000
Remuneration	<u>251</u>	<u>227</u>

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

	2017	2016
	No.	No.
Received or were entitled to receive shares under long term incentive schemes	1	1
Exercised share options	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	2017	2016
	£ 000	£ 000
Remuneration	120	122
Benefits under long-term incentive schemes (including shares)	123	97
Company contributions to money purchase pension schemes	<u>8</u>	<u>8</u>
	<u>251</u>	<u>227</u>

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

8 Audit fees

	2017	2016
	£ 000	£ 000
Audit of these financial statements	<u>75</u>	<u>29</u>

Fees for non-audit services paid to the Company's auditors were £38,000 (2016: £45,000) for VAT consultancy and tax advice of £nil (2016: £1,000).

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

9 Other interest receivable and similar income

	2017	2016
	£ 000	£ 000
Interest income on financial assets	805	948
Expected return on pension scheme assets (note 12)	6,364	7,655
	<u>7,169</u>	<u>8,603</u>

Other interest receivable and similar income includes income from group undertakings of £805,000 (2016: £948,000)

10 Interest payable and similar expenses

	2017	2016
	£ 000	£ 000
Expected interest on pension scheme liabilities (note 12)	5,390	6,270
Interest expense on financial liabilities	-	3
	<u>5,390</u>	<u>6,273</u>

11 Tax on profit

Tax charged/(credited) in the income statement

	2017	2016
	£ 000	£ 000
Current taxation		
Current tax on profits for the year	117	85
UK corporation tax adjustment to prior periods	<u>(2)</u>	<u>-</u>
	<u>115</u>	<u>85</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,849	2,394
Arising from changes in tax rates and laws	(216)	(400)
Adjustments in respect of previous periods	<u>(17)</u>	<u>(7)</u>
Total deferred taxation	<u>1,616</u>	<u>1,987</u>
Tax expense in the income statement	<u>1,731</u>	<u>2,072</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

11 Tax on profit (continued)

Tax income included in other comprehensive income:

Current tax: £nil (2016: nil). Deferred tax arising from origination and reversal of temporary differences £2,741,000 (2016: £942,000).

Tax expense for the year is lower (2016: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%)

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit before taxation	10,753	12,861
Profit multiplied by the standard rate of tax in the UK of 19.25% (2016: 20%)	2,070	2,572
Decrease in current tax from adjustment for prior periods	(19)	(7)
Increase from effect of revenues exempt from taxation	129	-
(Decrease)/increase from effect of expenses not deductible	(142)	11
Group relief claimed	(91)	(104)
Changes in tax rates or laws	(216)	(400)
Total tax charge	1,731	2,072

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2017			
Accruals	728	-	728
Tax losses carry-forwards	62	-	62
Accelerated tax depreciation	1,027	-	1,027
Pension benefit obligations	-	(9,282)	(9,282)
	1,817	(9,282)	(7,465)

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

11 Tax on profit (continued)

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2016			
Accruals	1,091	-	1,091
Tax losses carry-forwards	996	-	996
Accelerated tax depreciation	669	-	669
Pension benefit obligations	-	(5,865)	(5,865)
	<u>2,756</u>	<u>(5,865)</u>	<u>(3,109)</u>

Deferred tax movement during the year:

	At 1 January 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2017 £ 000
Accruals	1,091	(363)		728
Tax losses carry-forwards	996	(934)	-	62
Accelerated tax depreciation	669	358	-	1,027
Pension benefit obligations	(5,865)	(676)	(2,741)	(9,282)
Net tax assets/(liabilities)	<u>(3,109)</u>	<u>(1,616)</u>	<u>(2,741)</u>	<u>(7,465)</u>

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2016 £ 000
Accruals	8	1,083	-	1,091
Tax losses carry-forwards	2,892	(1,896)	-	996
Accelerated tax depreciation	296	373	-	669
Pension benefit obligations	(5,260)	(1,547)	942	(5,865)
Net tax assets/(liabilities)	<u>(2,064)</u>	<u>(1,987)</u>	<u>942</u>	<u>(3,109)</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. There is no expiry date on tax losses carried forward.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

12 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 £428,000 (2016 - £393,000).

Contributions totalling £(116,508) (2016 - £(85,061)) were payable to the scheme at the end of the year and are included in creditors.

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 £3,000,000 (2016 - £9,000,000).

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.

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.

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

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 statement of financial position are as follows:

	2017 £ 000	2016 £ 000
Fair value of scheme assets	250,347	242,537
Present value of scheme liabilities	(195,749)	(208,036)
Defined benefit pension scheme surplus	<u>54,598</u>	<u>34,501</u>

Scheme assets

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

	2017 £ 000	2016 £ 000
Fair value at start of year	242,537	196,275
Interest income	6,364	7,655
Remeasurement gains	7,718	38,009
Employer contributions	3,000	9,000
Benefits paid	(9,272)	(8,402)
Fair value at end of year	<u>250,347</u>	<u>242,537</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Cash and cash equivalents	774	110
Equity instruments	34,482	44,805
Debt instruments	192,236	171,897
Real estate	5,861	5,372
Other	16,994	20,353
	<u>250,347</u>	<u>242,537</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Actual return on scheme's assets

	2017	2016
	£ 000	£ 000
Actual return on scheme assets	<u>14,082</u>	<u>45,664</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:

	2017	2016
	£ 000	£ 000
Present value at start of year	208,036	167,048
Remeasurement gains arising from changes in demographic assumptions	(6,120)	-
Remeasurement (gains)/losses arising from changes in financial assumptions	(2,285)	43,120
Interest cost	5,390	6,270
Benefits paid	<u>(9,272)</u>	<u>(8,402)</u>
Present value at end of year	<u>195,749</u>	<u>208,036</u>

Principal actuarial assumptions

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

	2017	2016
	%	%
Mortality rate	1.00	1.00
Discount rate	2.55	2.65
Inflation (RPI)	3.30	3.40
Inflation (CPI)	<u>2.30</u>	<u>2.60</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Amounts recognised in the income statement

	2017 £ 000	2016 £ 000
Amounts recognised in operating profit		
Recognised in arriving at operating profit	-	-
Amounts recognised in finance income or costs		
Net interest	(974)	(1,385)
Total recognised in the income statement	<u>(974)</u>	<u>(1,385)</u>

Amounts taken to the Statement of Comprehensive Income

	2017 £ 000	2016 £ 000
Remeasurement gains arising from changes in demographic assumptions	(6,120)	-
Remeasurement (gains)/losses arising from changes in financial assumptions	(2,285)	43,120
Actual return less expected return on scheme assets	(7,718)	(38,009)
Amounts recognised in the Statement of Comprehensive Income	<u>(16,123)</u>	<u>5,111</u>

History of experience gains and losses

	2017 £ 000	2016 £ 000	2015 £ 000	2014 £ 000	2013 £ 000
Defined benefit obligation	(195,749)	(208,036)	(167,048)	(179,850)	(156,314)
Fair value of plan assets	<u>250,347</u>	<u>242,537</u>	<u>196,275</u>	<u>202,261</u>	<u>166,492</u>
Surplus	<u>54,598</u>	<u>34,501</u>	<u>29,227</u>	<u>22,411</u>	<u>10,178</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

12 Pension and other schemes (continued)

Experience adjustments

	2017 £ 000/%	2016 £ 000/%	2015 £ 000/%	2014 £ 000/%	2013 £ 000/%
Difference between the expected and actual return on plan assets	(7,718)	(38,009)	7,375	(25,585)	(4,862)
As a percentage of plan assets	(3) %	(16) %	4 %	(13) %	(3) %
Experience adjustments on plan liabilities	-	-	(5,136)	-	-
As a percentage of present value of plan liabilities	- %	- %	(3) %	- %	- %

Sensitivity analysis

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

	2017			2016		
Adjustment to discount rate	+ 0.25	0.0%	- 0.25	+ .25	0.0%	- .25
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	-	195,749	-	198,036	208,036	218,009
	2017			2016		
Adjustment to rate of inflation	+ .25	0.0%	- .25	+ .25	0.0%	- .25
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	-	195,749	-	215,332	208,036	201,036
	2017			2016		
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	-	195,749	-	201,036	208,036	215,428

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

13 Intangible assets

	Other intangible assets £ 000	Total £ 000
Cost or valuation		
At 1 January 2017	-	-
Additions	236	236
At 31 December 2017	236	236
Carrying amount		
At 31 December 2017	236	236
At 31 December 2016	-	-

Other intangible assets relate to capitalised REACH costs, which is a European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals. It came into force on 1st June 2007 and replaced a number of European Directives and Regulations with a single system.

14 Property, plant and equipment

	Land & Buildings £ 000	Plant & Machinery £ 000	Total £ 000
Cost or valuation			
At 1 January 2017	5,934	58,376	64,310
Additions	-	611	611
Disposals	(13)	(429)	(442)
At 31 December 2017	5,921	58,558	64,479
Depreciation			
At 1 January 2017	3,626	46,941	50,567
Charge for the year	104	2,064	2,168
Disposals	(6)	(406)	(412)
At 31 December 2017	3,724	48,599	52,323
Carrying amount			
At 31 December 2017	2,197	9,959	12,156
At 31 December 2016	2,308	11,435	13,743

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

15 Stocks

	2017	2016
	£ 000	£ 000
Raw materials and consumables	1,272	1,974
Work in progress	3,891	3,046
Finished goods and goods for resale	4,827	7,091
	<u>9,990</u>	<u>12,111</u>

Stock is stated after provisions for impairment of £791,000 (2016: £690,000).

The cost of stock recognised as an expense in the year amounted to £61,444,000 (2016: £49,788,000).

16 Debtors

	2017	2016
	£ 000	£ 000
Trade receivables	67	63
Amounts owed by group undertakings	143,640	130,966
Prepayments	179	291
Other receivables	84	84
Total current trade and other receivables	<u>143,970</u>	<u>131,404</u>

Amounts owed by group undertakings are currently subject to interest at a rate of 0.75%, unsecured and repayable on demand.

17 Creditors

	2017	2016
	£ 000	£ 000
Trade payables	6,234	7,338
Accrued expenses	1,552	904
Amounts owed to group undertakings	4,126	374
Social security and other taxes	503	497
Corporation tax	117	85
Other payables	15	79
	<u>12,547</u>	<u>9,277</u>

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

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

18 Provisions

	Dilapidation Reserve £ 000	Deferred grant income £ 000	Supply agreement reserve £ 000	Environmental reserve £ 000	Total £ 000
At 1 January 2017*	808	7	890	2,500	4,205
Increase (decrease) in existing provisions	(750)	-	-	-	(750)
Provisions utilised	-	(4)	-	-	(4)
Increase (decrease) due to foreign exchange differences	-	-	(85)	-	(85)
At 31 December 2017	<u>58</u>	<u>3</u>	<u>805</u>	<u>2,500</u>	<u>3,366</u>

*Restated (note 23)

19 Called up share capital

Allotted, called up and fully paid shares

	No. 000	2017 £ 000	No. 000	2016 £ 000
Ordinary shares of £1 each	<u>100,310</u>	<u>100,310</u>	<u>100,310</u>	<u>100,310</u>

20 Obligations under leases

Operating leases

The total future value of minimum lease payments is as follows:

	2017 £ 000	2016 £ 000
Within one year	53	17
In two to five years	209	372
In over five years	<u>120</u>	<u>-</u>
	<u>382</u>	<u>389</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £139,000 (2016 - £141,000)

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

21 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £289,000 (2016 - £454,000).

Other financial commitments

To underpin its obligations to the pension scheme, the Ultimate Parent company has guaranteed up to \$25 million of the agreed cash contribution and the Company has granted the Trustees a lien over a loan it had made to its intermediate parent company, LANXESS Solutions US Inc, with a value of £34,846,777 and interest that accrues under the loan, until the liabilities in respect of all members' pensions or other benefits have been discharged in full by the purchase of annuities of the kind described in section 74(3) of the Pensions Act 1985. LANXESS considers this contract to be an insurance contract.

22 Parent and ultimate parent undertaking

On 21st April 2017 Chemtura Corporation was acquired by LANXESS AG.

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.

23 Prior Year restatement

	Provisions	Retained earnings	Total
	£ 000	£ 000	£ 000
As at 01.01.2016	1,091	45,739	46,830
Revision	<u>2,500</u>	<u>(2,500)</u>	<u>-</u>
Restated as at 01.01.2016	<u>3,591</u>	<u>43,239</u>	<u>46,830</u>

LANXESS Solutions UK Ltd

Notes to the Financial Statements for the Year Ended 31 December 2017

23 Prior Year restatement (continued)

	Provisions	Retained earnings	Total
	£ 000	£ 000	£ 000
As at 31.12.2016	1,705	52,359	54,064
Revision	<u>2,500</u>	<u>(2,500)</u>	<u>-</u>
Restated as at 31.12.2016	<u><u>4,205</u></u>	<u><u>49,859</u></u>	<u><u>54,064</u></u>

Following the acquisition of Chemtura Corporation by LANXESS AG in April 2017, a global review of the ex-Chemtura entities environmental provisions was undertaken. As a consequence, it was noted that an environmental reserve of £2,500,000 was required for this entity and as such the prior year accounts have been restated to reflect this.