

Company Registration No. 02678296

IKO PLC

Annual Report and Financial Statements

For the year ended 31 December 2018



IKO PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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IKO PLC

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Carlyle
F Hautman
J Koschitzky
H M Koschitzky
A B Williamson (resigned 23 July 2018)

SECRETARY

TCSS Limited

REGISTERED OFFICE

Appley Lane North
Appley Bridge
Wigan
Lancashire
WN6 9AB

AUDITOR

Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

BANK

BNP Paribas
10 Harewood Avenue
London
NW1 6AA

STRATEGIC REPORT

Introduction

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

Business review

The company is a leading manufacturer and supplier in the UK of waterproofing materials, insulation and associated products for the building and construction industry. It exports its products to over 30 countries worldwide.

Turnover in 2018 was £11.3 million ahead of 2017. Gross profit as a percentage of turnover was 19.4% (2017: 15.7%) and totalled £18,161,000 (2017: £12,945,000).

Profit after tax of £2,676,000 (2017: loss of £646,000) was transferred to reserves (2017: transferred from reserves).

The company returned to profit this year. The opening of a new manufacturing facility within the UK in 2018 has reduced the volume of product that the business imports significantly and contributed to an improvement in gross margin.

Distributable reserves are in a strong position totalling £35,792,000 (2017: £33,116,000) along with net assets which total £35,333,000 (2017: £32,657,000). The performance of the company is deemed to be satisfactory.

Principal risks and uncertainties

The company's principal risks are primarily centred around competition on selling prices along with fluctuations in raw material prices. Competition on selling prices, including the availability of cheap imports from abroad have been, and will continue to be a challenge to the company, whilst any fluctuations in raw material prices can have an impact on the stability of the company's cost base.

Raw material prices continue to be closely monitored by the company to ensure any risk in this area is minimised. Despite this the business has continued to be affected by the weakening of the pound that occurred as a result of the decision by the UK to leave the European Union.

The company's objective is to provide high quality products combined with excellent service levels. The delivery of this objective along with the strong relationships that the company maintains with its key customers has meant that margins have improved in 2018.

The company operates in a wide variety of markets and as such is exposed to downturns in any one of these areas. However the company's ability to offer a wide range of products across new build and repairs and maintenance activities, helps to mitigate any such downturns in business.

The company is exposed to credit risk through the financial failure of key customers. To mitigate this risk, the company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is underwritten by credit insurance where possible and any uninsured exposure is managed in accordance with group credit policies and procedures.

Staff retention is important to the company. The company seeks to employ high quality, professional and experienced personnel, and appreciates that the loss of key personnel could present operational difficulties for the company. The company also believes in the training and development of their employees and operates both an internal management training programme alongside a recognition incentive scheme to reward outstanding employee achievement.

The UK economy calendar year growth was 1.4% in 2018, down from 1.8% in 2017 and the weakest expansion since 2009. The slowdown presented some difficult trading conditions throughout the year; this is expected to continue into 2019. Notwithstanding this, the directors are confident of the operating effectiveness of the company and consider the next financial year to be a positive one.

STRATEGIC REPORT (continued)

Financial key performance indicators

Debtor days increased to 73 days from 72 days in 2017. Creditor days remained consistent with 2017 at 31 days.

Stock on average is turned 7.0 times a year, which has increased from the 2017 average of 6.2 times.

Both Equity and Asset based ROCE improved on the prior year due to increased EBIT levels.

Non-financial key performance indicators

The company uses a variety of non-financial key performance measures, which include measuring On Time In Full deliveries, order fulfilment, customer complaints, warranty claims and number of orders processed.

These measures are reported and reviewed weekly or monthly and most continue to show improvement.

Future developments

The directors expect the general level of activity to increase compared with 2018 in the forthcoming year albeit in the challenging environment as set out above.

Approved by the Board of Directors
and signed on behalf of the Board



A Carlyle

Director

28th June 2019

Appley Lane North
Appley Bridge
Wigan
Lancashire
WN6 9AB

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, the financial statements and auditor's report for the year ended 31 December 2018. Future developments and key performance indicators are included within the Strategic Report.

Results and dividends

The profit for the year, after taxation, amounted to £2,676,000 (2017: loss of £646,000). The directors have not recommended the payment of a dividend (2017: £nil).

Directors

The directors who served during the year and subsequently to the date of this report were:

A Carlyle
F Hautman
J Koschitzky
H M Koschitzky
A B Williamson (resigned 23 July 2018)

H M Koschitzky is an overseas based director and is not required to notify his interest in group undertakings incorporated outside Great Britain to the company. He has no beneficial interest in the share capital of the group companies in Great Britain. F Hautman is also an overseas based director and has no beneficial interest in the share capital of group companies in Great Britain. None of the directors had any declarable beneficial interest in the share or loan capital of the company's ultimate parent company, IKO Enterprises Limited.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made in prior years and remain in force at the date of this report.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

Political and charitable donations

Charitable donations in the UK totalled £9,000 (2017: £7,000). No political contributions were made (2017: same).

DIRECTORS' REPORT (continued)

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk.

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Exchange rates and interest rates are monitored on a regular basis by the directors, hedge accounting is not adopted by the entity.

Credit risk

The company's principal financial assets are bank balances and cash, trade and other receivables.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Furthermore, the company insures its debtors to mitigate the risk of non-payment further.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

Further details regarding liquidity risk can be found in the accounting policies in the financial statements.

Going concern

The company's business activities, together with the factors likely to affect its future development and its key risks are described in this report and the Strategic Report.

The company has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and business sectors. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and in any case for a period of at least 12 months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern can be found in the accounting policies note.

Research and development activities

The company seeks to enhance the performance of its products through continuous improvements and quality control in order to meet evolving building design criteria and expected European building standards.

Employee consultation

The company has continued to place a high priority on the training and development of its employees and considerable emphasis has been placed on reviewing and improving health and safety procedures.

The board recognises the need for effective communication with the involvement of employees to ensure good relations and the improvement of the company performance and will continue to hold briefings and presentations when required.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

DIRECTORS' REPORT (continued)

Auditor

In the case of each of the persons who are directors of the company when this report was approved:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The auditor, Deloitte LLP, have expressed their willingness to continue as auditor of the company.

Post balance sheet events

There have been no significant events affecting the company since the year end.

Information regarding future developments has been included in the Strategic Report.

Approved by the Board of Directors
and signed on behalf of the Board



A Carlyle

Director

28th June 2019

Appley Lane North
Appley Bridge
Wigan
Lancashire
WN6 9AB

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IKO PLC

Report on the audit of the financial statements

Opinion

- In our opinion the financial statements of IKO PLC (the 'company') give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IKO PLC (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IKO PLC (continued)

Matters on which we are required to report by exception

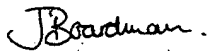
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Jane Boardman BSc FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

Date: 28th June 2019

IKO PLC

PROFIT AND LOSS ACCOUNT For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	93,709	82,436
Cost of sales		(75,548)	(69,491)
Gross profit		18,161	12,945
Distribution costs		(9,256)	(9,709)
Administrative expenses		(4,985)	(4,550)
Loss on disposal of tangible fixed assets	4	(68)	(75)
Operating profit/(loss)	5	3,852	(1,389)
Interest receivable and similar income	7	280	1,494
Interest payable and expenses	8	(639)	(573)
Profit/(loss) before tax		3,493	(468)
Taxation on profit/(loss)	9	(817)	(178)
Profit/(loss) after tax		2,676	(646)

All results were derived from continuing operations.

There were no recognised income or expenses for 2018 or 2017 other than those included in the profit and loss account and accordingly no separate statement of other comprehensive income is presented.

The notes on pages 13 to 26 form part of these financial statements.


IKO PLC

BALANCE SHEET As at 31 December 2018

	Note	2018 £'000	2017 £'000
FIXED ASSETS			
Goodwill	10	715	953
Tangible assets	11	21,115	21,484
		<u>21,830</u>	<u>22,437</u>
CURRENT ASSETS			
Stocks	13	10,169	11,413
Debtors	14	31,219	29,887
Cash at bank		8,260	2,881
		<u>49,648</u>	<u>44,181</u>
CREDITORS			
Amounts falling due within one year	15	(35,641)	(33,459)
NET CURRENT ASSETS		<u>14,007</u>	<u>10,722</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>35,837</u>	<u>33,159</u>
PROVISIONS FOR LIABILITIES	17	(504)	(502)
NET ASSETS		<u>35,333</u>	<u>32,657</u>
CAPITAL AND RESERVES			
Called-up share capital	18	1,000	1,000
Profit and loss account		35,792	33,116
Merger reserve		(1,459)	(1,459)
SHAREHOLDERS' FUNDS		<u>35,333</u>	<u>32,657</u>

The financial statements of IKO plc (Registration Number 02678296) were approved and authorised for issue by the Board and were signed on its behalf by:

The notes on pages 13 to 26 form part of these financial statements.



A Carlyle

Director

28th June 2019

IKO PLC

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2018

	Called-up share capital £'000	Profit and loss account £'000	Merger reserve £,000	Total equity £'000
At 1 January 2017	1,000	33,762	-	34,762
Loss for the year and total comprehensive expense for the year	-	(646)	-	(646)
Transfer from fixed assets investments	-	-	(1,459)	(1,459)
At 31 December 2017	1,000	33,116	(1,459)	32,657
Profit for the year and total comprehensive income for the year	-	2,676	-	2,676
At 31 December 2018	1,000	35,792	(1,459)	35,333

The notes on pages 13 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation of financial statements

The company is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The registered office is Appley Lane North, Appley Bridge, Wigan, WN6 9AB.

The company's principal activity is disclosed within the Strategic Report.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The functional currency of IKO plc is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

The following principal accounting policies have been applied consistently in the current and prior years.

1.2 Financial reporting standard 102 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 33 Related Party Disclosures with reference to remuneration of key management personnel;
- the requirements of Section 7 Statement of Cash Flows; and
- the requirements of Section 11 and 12 Financial Instruments.

This information is included in the consolidated financial statements of IKO U.K. Limited as at 31 December 2018 and these financial statements may be obtained from the company's registered office (see note 24 for further details).

1.3 Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The company has made a profit of £2.7m, is in a net current assets position of £14.0m and a net assets position of £35.3m. The company has cash of £8.3m at the year end. The directors' report further describes the entities cash flows, liquidity position and borrowing facilities; the company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposure to credit risk and liquidity risk.

The company has adequate financial resources along with a diverse spread of customers and suppliers. There is no overreliance on any single customer or supplier, and as a consequence the directors believe that the company is well placed to manage its business risks successfully despite the current economic environment.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and in any case for a period of at least 12 months from the date of signing these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.4 Related party transactions

As the company is a wholly owned subsidiary of IKO U.K. Limited, it has taken advantage of the exemption contained within FRS 102 Section 33 in relation to balances and transactions between other wholly-owned entities within the group headed by IKO U.K. Limited Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

1.5 Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the value of the consideration received, excluding discounts, rebates, value added taxes or duty. The following criteria must also be met before revenue is recognised:

Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Interest income

Revenue is recognised as interest accrues using the effective interest rate method.

Dividends

Revenue is recognised when the company's right to receive payment is established.

1.6 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.7 Research and development

All expenditure is charged to the profit and loss account as incurred.

1.8 Goodwill

Goodwill, representing the excess of the purchase price over the fair value of the net assets acquired is capitalised and amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, on a straight line basis over the life of the asset. It is written off on a straight line basis over 5 years as in the opinion of the directors this represents the period over which goodwill is effective. It is reviewed for impairment at the end of the first full financial year following the acquisition and annually thereafter.

1.9 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit and loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, as noted below.

The estimated useful lives range as follows:

Freehold property - 50 years

Plant & machinery - 3 to 15 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

1.10 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Raw materials, consumables and goods for resale are valued on a purchase cost on a first in, first out basis.

Work in progress and finished goods are valued on the basis of the cost of direct materials and labour plus attributable overheads based on a normal level of activity.

1.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.12 Foreign currencies

Transactions in foreign currencies are recorded using the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange ruling at the Balance Sheet date. Exchange differences are reflected in the results for the year.

1.13 Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

1.13 Financial instruments (continued)

(i) Financial assets and liabilities (continued)

- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Investments

Investments in subsidiaries are measured at cost less impairment.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

1.13 Financial instruments (continued)

Financial assets (continued)

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, and loans to and from related parties.

Financial assets that are measured at cost and fair value are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.14 Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

1.16 Pensions

The company participates in a group wide pension scheme providing benefits based on final pensionable pay which is closed to future accrual. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also participates in three group-wide defined contribution pension schemes. The assets of the schemes are held separately from those of the company. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

2. Critical accounting judgements and key sources of estimation uncertainty

In applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, the actual results and outcomes may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The critical judgements that the directors have made in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

Assessing indicators of impairment

In assessing whether there have been any indicators of impaired assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determining the stock provision

The company includes stock provisions for slow moving and obsolete stock. Management undertake an assessment of which stocks are no longer economically feasible, based on seasonal and consumer performance, before allocating the necessary provisions to bring the stock valuation in line with the accounting policy stated above. There is a stock provision in place of £232,000 (2017: £193,000).

3. Turnover

The turnover and profit before taxation are attributable to the one principal activity of the company. An analysis of turnover by geographical market is given below:

	2018 £'000	2017 £'000
United Kingdom	81,449	74,824
Rest of Europe	10,410	6,925
Rest of the world	1,850	687
	<u>93,709</u>	<u>82,436</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

4. Loss on disposal of tangible fixed assets

	2018	2017
	£'000	£'000
Loss on disposal of tangible fixed assets	(68)	(75)

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Depreciation of owned assets	2,268	2,253
Amortisation of goodwill (note 10)	238	238
Loss on disposal of tangible fixed assets	68	75
Auditor's remuneration for audit services	37	37
Foreign exchange (profit)/loss	(35)	87
Pension contributions	1,722	1,607

Non audit fees payable to Deloitte LLP were £6,700 (2017: £8,000) in relation to tax compliance.

6. Employees

	2018	2017
	£'000	£'000
Wages and salaries	10,782	11,109
Social security costs	1,075	1,113
Other pension costs (note 22)	1,722	1,607
	<u>13,579</u>	<u>13,829</u>

The average monthly number of employees (including directors) was:

	2018	2017
	No	No
Production	131	134
Selling	124	144
Administration	24	34
	<u>279</u>	<u>312</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

6. Employees (continued)

	2018 £'000	2017 £'000
Directors' emoluments	259	291
Company contributions to pension schemes	34	30
Compensation for loss of office	130	-
	<u>423</u>	<u>321</u>

During the year retirement benefits were accruing to 2 directors (2018 – 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £155,000 (2017: £156,000).

The value of the company's contributions paid to a defined benefit contribution pension scheme in respect of the highest paid director amounted to £17,000 (2017: £16,000).

7. Interest receivable and similar income

	2018 £'000	2017 £'000
Deposit account interest received	21	18
Interest on loans to group undertakings	259	216
Dividend income from fixed asset investments	-	1,260
	<u>280</u>	<u>1,494</u>

8. Interest payable and similar expenses

	2018 £'000	2017 £'000
Other interest payable	6	-
Interest on loans to group undertakings	633	573
	<u>639</u>	<u>573</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

9. Taxation

	2018 £'000	2017 £'000
Corporation tax		
Current tax on profits for the year	815	-
Adjustments in respect of previous periods	-	73
Total current tax	815	73
Deferred tax		
Origination and reversal of timing differences	(30)	(86)
Changes in tax rates	-	(15)
Adjustments in respect of previous periods	32	206
Total current tax	817	178

Factors affecting current tax charge in the year:

The standard rate of tax for the year, based on the average UK standard rate of corporation tax, is 19% (2017: 19.25%). The actual current tax charge for the current year and charge for the preceding year is higher (2017: higher) for the reasons set out in the following reconciliation:

	2018 £'000	2017 £'000
Profit/(loss) before tax	3,493	(468)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	664	(90)
Effects of:		
Expenses not deductible for tax purposes	33	229
Investment income not chargeable for tax purposes	-	(243)
Adjustments in respect of previous periods	36	279
Other timing differences	205	28
Group relief	(111)	-
Changes in tax rates	-	(15)
Transfer pricing adjustments	(10)	(10)
Total tax charge for the year	817	178

Factors that may affect future tax charges

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. As this legislation was substantively enacted at year end the impact of the rate change is reflected in the tax provisions reported in these accounts. Accordingly, deferred tax balances have been calculated at the rate of 17% in these accounts. To the extent that the deferred tax reverses before 1 April 2020 then the impact on the net deferred tax asset will be reduced.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

10. Goodwill

	Total £'000
Cost	
At 1 January 2018 and at 31 December 2018	1,191
Amortisation	
At 1 January 2018	238
Charge for the year	238
At 31 December 2018	476
Net book value	
At 31 December 2018	715
At 31 December 2017	953

Amounts transferred from fixed asset investments are in relation to the amounts adjusted on hive up from investments and reclassified to goodwill.

11. Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2018	14,063	32,400	46,463
Additions	277	1,693	1,970
Disposals	(73)	(17)	(90)
At 31 December 2018	14,267	34,076	48,343
Depreciation			
At 1 January 2018	2,500	22,479	24,979
Charge for the year	335	1,933	2,268
Disposals	(2)	(17)	(19)
At 31 December 2018	2,833	24,395	27,228
Net book value			
At 31 December 2018	11,434	9,681	21,115
At 31 December 2017	11,563	9,921	21,484

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

12. Fixed asset investments

IKO plc owns 50% of the issued ordinary share capital of Ruberoid International Limited (Registered address: Appley Lane North, Appley Bridge, Wigan, Lancashire, WN6 9AB) another IKO group company. The carrying value of this investment at 31 December 2018 was £nil (2017: £nil).

During September 2016 IKO plc acquired 100% of the issued share capital of Pure Asphalt Company Limited (Registered address: Appley Lane North, Appley Bridge, Wigan, Lancashire, WN6 9AB), a company registered in England and Wales. In 2017, the trade and certain assets of Pure Asphalt Company Limited were sold to the company, after which Pure Asphalt Limited ceased to trade. The cost of investment totalling £2,650,000 was transferred to goodwill and merger reserves. The goodwill was limited to that at the date of acquisition.

The company is consolidated in the financial statements of its parent IKO U.K. Limited which are publicly available, see note 24 for further details, therefore no consolidated financial statements have been prepared by IKO plc.

13. Stocks

	2018 £'000	2017 £'000
Finished goods and goods for resale	7,201	9,232
Raw materials and consumables	2,968	2,181
	<u>10,169</u>	<u>11,413</u>

The replacement cost of stock is equal to their carrying amount.

14. Debtors

	2018 £'000	2017 £'000
Due within one year		
Trade debtors	20,996	20,074
Amounts owed by group undertakings	9,680	8,116
Other debtors	15	212
Prepayments	528	1,485
Total debtors	<u>31,219</u>	<u>29,887</u>

The amounts owed by group undertakings are unsecured and are due to be repaid in instalments by 31 December 2019. The balances attract interest of 3.5% per annum (2017: same).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

15. Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	5,577	2,687
Amounts owed to group undertakings	20,462	22,815
Corporation tax	815	-
Taxation and social security	1,481	1,729
Other creditors	5,409	4,615
Accruals and deferred income	1,897	1,613
	<u>35,641</u>	<u>33,459</u>

The interest rate on amounts owed to group undertakings is 3.5% per annum (2017: same). Amounts are unsecured and repayable on demand.

16. Leasing agreements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2018 £'000	2017 £'000
Within one year	-	5
Between one and five years	37	37
	<u>37</u>	<u>42</u>

Amounts charged to the profit and loss account in respect of operating leases totalled £42,000 (2017: £68,000).

17. Provision for liabilities

	Deferred tax £'000
At 1 January 2018	(502)
Credit in the year	30
Adjustments in respect of previous periods	(32)
At 31 December 2018	<u>(504)</u>
The deferred tax liability is made up as follows:	
	2018 £'000
Accelerated capital allowances	(527)
Other timing differences	23
	<u>(504)</u>
	2017 £'000
	(560)
	58
	<u>(502)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

18. Share capital

	2018 £'000	2017 £'000
Allotted, called-up and fully paid		
1,000,000 Ordinary shares of £1.00 each	1,000	1,000

Ordinary shares have equal voting rights and rank equally on distribution.

19. Reserves

Profit & loss account

Profit and loss account includes all current and prior year retained profits and losses.

Merger reserve

The merger reserve was created when Pure Asphalt Limited ceased to trade in 2017.

20. Capital commitments

At 31 December 2018 the company had capital commitments as follows:

	2018 £'000	2017 £'000
Contracted for but not provided in these financial statements	350	261

21. Contingent liabilities

The company has granted a charge over its premises at Appley Bridge to the Ruberoid PLC Staff Pension Scheme to secure future obligations of its parent company and fellow subsidiaries to the scheme.

22. Pension commitments

The company participates in the Ruberoid PLC Staff Pension Scheme. This is a defined benefit scheme which was closed to new members in April 2003.

As the Ruberoid PLC Staff Pension Scheme is run for the IKO UK Limited group as a whole, the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 102, the scheme is accounted for in these financial statements by the company as if the scheme was a defined contribution scheme.

At 31 December 2018, the scheme had a deficit on an FRS 102 basis of £17,433,000 (2017: £19,635,000). Full disclosure is contained within the financial statements of the company's intermediate parent company, IKO U.K. Limited.

During the year the company contributed £717,000 (2017: £599,000) to the Ruberoid Plc Staff Pension Scheme. There were contributions outstanding at 31 December 2018 of £63,000 (2017: £51,000).

Following work performed by the scheme's actuary, the impact of Guaranteed Minimum Pension ('GMP') equalization on the liabilities of the relating pension liability is estimated to be 1.4%. This GMP equalization impact has not been reflected in the pension premiums charged to IKO PLC Limited in 2018 however, will be so in future years.

The company also participates in a defined contribution scheme for employees being the IKO Group Flexible Retirement Plan. During the year the company contributed £1,005,000 (2017: £1,008,000) to those schemes. There were contributions outstanding at 31 December 2017 of £76,000 (2017: £77,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

23. Related party transactions

The company has taken advantage of the exemption under FRS 102 section 33 not to provide information on related party transactions with other undertakings within the IKO U.K. Limited group.

The company has a loan balance with IKO Sales Limited, a fellow subsidiary of IKO Enterprises Limited. The carrying value of this loan at 31 December 2018 was £7,000,000 (2017: £7,000,000).

During the year the company traded with IKO Europe NV on normal commercial terms. At the balance sheet date net amounts due to IKO Europe NV totalled £1,068,000 (2017: £1,081,000).

During the current and prior year the company paid expenses on behalf of IKO Insulations UK Limited, a member of the wider IKO group. At 31 December 2018 the carrying value of the balance due from IKO Insulations UK Limited was £30,000 (2017: £nil).

24. Ultimate controlling party

The company's ultimate parent company is IKO Enterprises Limited, a company incorporated in Canada, and its immediate parent company is IKO Holdings Limited (Registered address: Appley Lane North, Appley Bridge, Wigan, Lancashire, WN6 9AB).

IKO U.K. Limited is the parent undertaking of the smallest and largest group of undertakings of which the company is a member and for which group financial statements are prepared. Copies of these financial statements may be obtained from the Company Secretary at the following address:

Appley Lane North
Appley Bridge
Wigan
Lancashire
WN6 9AB