

Flexcrete Technologies Limited

Annual Report and Financial Statements

Registered number 5401028

31 December 2019



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Strategic Report

The directors present their Strategic Report for the year ended 31 December 2019.

Principal activities

The principal activities of the Company are the manufacture and sale of cement based compounds.

Business review

The Company's business is part of the AkzoNobel Performance Coatings Business Unit of the group headed by Akzo Nobel N.V. Full information on the strategy of the Business Unit can be found in the Financial Statements, pages 22 – 35, of the ultimate parent company; Akzo Nobel N.V. Copies are available as indicated in note 19 of the financial statements.

Strategic developments

Our strategy is to develop the market segments of our business leading to profitable growth for the business.

Operational performance

The results for the year to 31 December 2019 are in line with expectations.

Key performance indicators

The Company assesses business performance over many indicators; both stand alone and also as a key part of the Performance Coatings European Business Unit. Full analysis of this business unit is provided in the annual report, pages 38 – 51, of Akzo Nobel N.V. as indicated above. The standalone indicators are presented in the below table.

Indicator	Year ended 31 December 2019	Year ended 31 December 2018
Turnover from sale of product	£4,604,000	£5,035,000
Profit before tax margin	49.3%	7.9%

Turnover includes both third parties and intercompany sales.

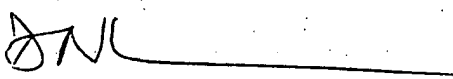
Future developments

For 2020, we will continue with our customer focus and our growth ambitions for the coming years.

Principal risks and uncertainties

The Company recognises that the possible risks to its operations are unfavourable exchange rates and its exposure to credit risks, which are managed through reducing the Company's exposure to foreign currency and strict adherence to the Group's credit policy.

On behalf of the Board


D. Williams
Director

Registered office:
The AkzoNobel Building
Wexham Road
Slough
SL2 5DS

18 March 2021

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2019.

Results and dividends

The results for the year ended 31 December 2019 are set out on page 7 of the financial statements. The profit for the year after taxation was £1,835,000 (year ended 31 December 2018: £318,000). The net assets at 31 December 2019 were £4,690,000 (31 December 2018: £2,855,000). No dividends were paid or proposed in the year ended 31 December 2019 (year ended 31 December 2018: no dividends proposed or paid).

Directors

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

N. Atkinson
D. Williams
J. Morton

Employees

The Company's policy is to consider all job applications by disabled persons sympathetically in relation to the duties, responsibilities and physical requirements of the vacancies, the aptitudes of the applicants, including the nature of the disability, the working environment and the facilities required for the effective performance of the job by the applicant.

If any existing employee becomes disabled, the Company will examine any effects of the disability on current job performance and take all practicable steps to maintain the employees' continued employment through the provision of appropriate retraining, changes in working facilities or, with mutual agreement, the provision of alternative employment more closely related to the employees' capabilities.

The Company will continue to identify and monitor the employment of Registered Disabled persons to determine its position in relation to the current statutory requirements.

Employee involvement

The policy of providing employees with information about the Company will be continued through various media used by the Company to present such information. A Works Council meets on a regular basis which enables employee representatives to discuss business issues with senior management. An annual bonus scheme is in operation which rewards employees and is linked to the performance of the Company.

Political contributions

The Company did not make any political donations or incurred any political expenditure during the current or prior period.

Financial risk management

Financial risk includes price risk, credit risk, liquidity risk and cash flow risk. These are addressed and managed at a group level as disclosed in the Akzo Nobel N.V. 2019 Report, pages 107 to 110. An overall risk management program seeks to identify, assess and if necessary, mitigate these financial risks in order to minimise potential adverse effects on financial performance.

Directors' Report (continued)

Going concern

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its fellow group companies operate is uncertain at this time.

As of the signing date of these financial statements management was not aware of any material adverse effects on the financial statements for the year ended December 31, 2019 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors' are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors' are aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Post balance sheet events

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its fellow group companies operate is uncertain at this time.

As of the signing date of these financial statements management was not aware of any material adverse effects on the financial statements for the year ended December 31, 2019 as a result of COVID-19. Management consider the COVID-19 pandemic to be a non-adjusting post balance sheet event. Management will continue to monitor the situation and the impact on the Company.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 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.

Directors' Report (continued)

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.

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.

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors

PricewaterhouseCoopers LLP were appointed as external auditors during the period and have indicated their willingness to continue as external auditors for the Company.

On behalf of the Board



D. Williams
Director

The AkzoNobel Building
Wexham Road
Slough
SL2 5DS

18 March 2021

Independent auditors' report to the members of Flexcrete Technologies Limited

Report on the audit of the financial statements

Opinion

In our opinion, Flexcrete Technologies Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2019; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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.

Independent auditors' report to the members of Flexcrete Technologies Limited (continued)

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. 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.



Nicholas Cook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
18 March 2021

Statement of Comprehensive Income
for the year ended 31 December 2019

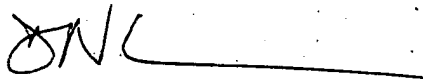
	<i>Note</i>	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Turnover	4	4,604	5,035
Cost of sales		(2,982)	(3,103)
Gross profit		1,622	1,932
Distribution costs		(457)	(418)
Administrative expenses		(944)	(1,119)
Other operating income	5	2,031	-
Operating profit		2,252	395
Interest receivable and similar income	6	17	3
Profit before taxation		2,269	398
Tax on profit	9	(434)	(80)
Profit and total comprehensive income for the financial year		1,835	318

Balance sheet
as at 31 December 2019

	<i>Note</i>	31 December 2019 £000	31 December 2018 £000
Fixed assets			
Intangible assets		-	-
Tangible assets	10	630	721
		<u>630</u>	<u>721</u>
Current assets			
Stocks	11	615	680
Debtors	12	4,502	2,905
Cash at bank and in hand		104	76
		<u>5,221</u>	<u>3,661</u>
Creditors: amounts falling due within one year	13	(1,133)	(1,474)
Net current assets		<u>4,088</u>	<u>2,187</u>
Total assets less current liabilities		<u>4,718</u>	<u>2,908</u>
Creditors: amounts falling due after more than one year	14	(0)	(4)
Provisions for liabilities	15	(28)	(49)
Net assets		<u>4,690</u>	<u>2,855</u>
Capital and reserves			
Called up share capital	16	50	50
Retained earnings		4,640	2,805
Total Shareholders' funds		<u>4,690</u>	<u>2,855</u>

The notes on pages 10 to 23 are an integral part of these financial statements.

These financial statements on pages 7 to 23 were authorised for issue by the board of directors and were signed on 18 March 2021 on its behalf by:



D. Williams
Director

Statement of changes in equity
For the year ended 31 December 2019

	Called up share Capital £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 January 2018	50	2,487	2,537
Profit for the financial year	-	318	318
Total comprehensive income for the financial year	-	318	318
Balance at 31 December 2018	50	2,805	2,855

	Called up share Capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019	50	2,805	2,855
Profit for the financial year	-	1,835	1,835
Total comprehensive income for the financial year	-	1,835	1,835
Balance at 31 December 2019	50	4,640	4,690

Notes to the financial statements

1 General information

Flexcrete Technologies Limited (the "Company") is a private Company limited by shares and is incorporated and domiciled in England, within the UK. The Company registration number is 05401028 and the registered office address is The AkzoNobel Building, Wexham Road, Slough, United Kingdom SL2 5DS.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

2.1 Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and presentation requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but make amendments where necessary in order to comply with the Act and take advantage of the FRS 101 disclosure exemption.

The financial statements are prepared on the historical cost basis.

The Company's ultimate parent undertaking, Akzo Nobel N.V. includes the Company in its consolidated financial statements. The consolidated financial statements of Akzo Nobel N.V. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

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

- a Statement of Compliance with IFRS;
- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible assets and intangible assets;
- Disclosures in respect of transactions entered into by two or more members of a wholly owned group;
- 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.

As the consolidated financial statements of Akzo Nobel N.V. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- Certain disclosures required by IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors.

Notes to the financial statements (continued)

2 Accounting policies (continued)

2.2 Going concern

The directors have made the necessary enquiries and assessed the Company's financial position and have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. The directors therefore, continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3 New standards, amendments and IFRIC interpretations

In 2019 the most significant change in accounting policies adopted by the AkzoNobel Group relate to adoption of IFRS 16 "Leases". IFRS 16 replaces the previous standard on lessee accounting for leases. It requires lessees to bring most leases on balance sheet in a single lease accounting model, recognizing a right-of-use asset and a lease liability. The implementation of IFRS 16 has not led to a recognition of right-of-use assets and a lease liability as at 1 January 2019, due to there being no leases previously accounted for as operating leases for which a practical expedient has not been utilised.

Flexcrete Technologies has adopted IFRS 16 as per January 1, 2019, applying the modified retrospective approach. All right-of use assets are measured at the amount of the lease liability at transition, adjusted for any prepaid or accrued lease expenses. Short-term and low-value leases are exempted. The company has not restated its 2018 comparative figures. The adoption did not have an impact on the company equity. IFRS 16 requires the right-of-use asset and the lease liability to be recognized at discounted value and assumptions with regards to termination and renewal options have been taken into consideration.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the prior assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019. Judgement was applied at the initial application of IFRS 16 and also thereafter, when assessing whether payments to be made in optional periods should be included in the calculation of the right-of-use assets and lease liability. Such payments are included in the calculations when it is deemed it reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

The company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17, in particular:

- On a lease by lease basis it was decided whether to recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application
- The company did not recognize right-of-use assets and liabilities for leases of low-value assets (e.g. certain IT equipment)
- Initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application
- The Company used hindsight when determining the lease terms

In respect of the implications of IFRS 16 for tax accounting, AkzoNobel has assessed that the right-of-use asset and the lease liability are to be considered together as a single transaction, because in the company's view they are integrally linked. As a result, at inception of a lease and also at the IFRS 16 transition, the net lease asset or liability (without taking into account any advance payments) is nil, the tax base is nil and, therefore, the temporary difference is nil. Hence, no deferred taxes have to be accounted for at inception/IFRS 16 transition and going forward deferred tax.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

(b) Transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

2.5 Fixed assets

All tangible fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Plant and machinery	15% reducing balance
Office equipment, Fixtures, fittings	20% - 33% reducing balance
Motor vehicles	25% reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.6 Inventories

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the actual purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

2.7 Debtors

Trade and other 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 and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.8 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.10 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

2.11 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognized 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

Notes to the financial statements (continued)

2 Accounting policies (continued)

2.11 Current and deferred tax (continued)

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 deferred income taxes 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.

2.12 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 statement of comprehensive income in the periods during which services are rendered by employees.

2.13 Turnover

Sale of goods

Turnover represents the fair value of consideration received and receivable for goods and services supplied to customers after deducting sales allowances, rebates and value added taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, the revenue can be measured reliably and collectability is reasonably assured.

2.14 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.15 Leases

The company applied IFRS 16 using the modified retrospective approach and therefore the comparative information for 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from January 1, 2019

The company assesses whether a contract is, or contains, a lease at inception. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

As a lessee

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of cars the company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the present value of the lease liability. The right-of-use asset value contains lease prepayment, lease incentives received, the initial direct costs and an estimate of restoration, removal and dismantling costs.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

2.15 Leases *(continued)*

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term or shorter economic life. In addition, the right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The net present value of the lease liability is measured at the discounted value of the lease payments. The liability includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The lease payments comprise the following:

- Fixed payments (including in substance fixed payments), less any lease incentives
- Variable lease payments that depend on an index or a rate
- The exercise price of a purchase option if it is reasonably certain that the option will be exercised
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease; and
- Amounts expected to be payable under residual value guarantees.

These lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used. Incremental borrowing rates are determined by obtaining interest rates from various external financing sources and make certain adjustments to reflect the term of the lease and type of the asset leased.

At the lease commencement dates, it is assessed whether it is reasonably certain to exercise the extension options. The company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within the company's control.

At the commencement date, it is assessed whether it is reasonably certain that:

- An option to extend is exercised; or
- An option to purchase is exercised; or
- An option to terminate the lease is not exercised

In making these assessments, all relevant facts and circumstances that create an economic incentive for us to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option are considered.

Short-term leases and leases of low-value assets. The company elected not to recognize on the balance sheet right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Lease contracts in which the company has substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is depreciated using a straight-line method, based on the lower of the estimated useful life or the lease term.

The interest expenses are recognized as other financing expenses over the lease term. Payments made under operational leases are recognized in the statement of income on a straight-line basis over the term of the lease.

2.16 Research and development expenditure

Expenditure on research and development is charged to profit in the year in which it is incurred. If relevant criteria are met, it would be capitalised.

2.17 Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

(b) Inventory provisioning

The company is subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials.

(c) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience.

Notes to the financial statements *(continued)*

4 Turnover

Analysis of turnover by geography:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
United Kingdom	2,874	3,216
Rest of Europe	944	1,016
Rest of World	783	803
	<u>4,604</u>	<u>5,035</u>

All turnover represents sale of goods.

5 Expenses and auditors' remuneration

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Audit fees payable to the Company's auditors	18	12
Inventory recognised as an expense	1,810	1,979
Loss on disposal of tangible fixed assets	4	6
Depreciation charged to the statement of income	123	121
Lease costs attributable to short term operating leases	19	20
	<u></u>	<u></u>

Other operating income of £2,031,000 (2018: £nil) relates to income received for the transfer of technology licences to Akzo Nobel Coatings International B.V. These internally generated intangible assets had not previously been recognised as an asset on the balance sheet; hence the income relates to the full consideration amount received.

6 Interest receivable and similar income

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Bank interest receivable	17	3
	<u></u>	<u></u>

Notes to the financial statements *(continued)*

7 Remuneration of directors

Directors are not remunerated through this entity. They are remunerated through International Paint Ltd (another company within the AkzoNobel group) and it is not possible to determine a reasonable apportionment to this company.

8 Staff numbers and costs

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
By activity		
General & Administration	5	6
Management	2	2
Production	15	13
RD&I	5	6
Sales	5	5
	<hr/>	<hr/>
	32	32
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Wages and salaries	1,007	1,039
Social security costs	113	112
Other pension costs (see note 18)	148	151
	<hr/>	<hr/>
	1,268	1,302
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

9 Tax on profit

Recognised in the statement of comprehensive income

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
<i>UK corporation tax</i>		
Current tax charge for the year	455	104
Total current tax	455	104
<i>Deferred tax</i>		
Origination and reversal of timing differences	(21)	(24)
Total deferred tax	(21)	(24)
Tax charge on profit on ordinary activities	434	80

Reconciliation of effective tax rate

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Profit before taxation	2,269	398
Tax charge using UK corporation tax rate 19.00% (2018: 19.00%)	431	76
Tax rate changes	3	-
Expenses not deductible for tax purposes – other disallowable	-	4
Total tax charge	434	80

Factors that may affect future current and total tax charges

In the Summer 2015 Budget Statement the UK corporation tax rate was reduced from 20% to 19%, effective 1 April 2017, with a further reduction to 18% effective 1 April 2020, and in the March 2016 Budget Statement it was announced this rate would reduce from 18% to 17% effective 1 April 2020. All of these changes had been substantively enacted at the balance sheet date. In the March 2020 Budget Statement, the rate was held at 19% and substantively enacted at this time.

As a result of the changes that had been substantively enacted at balance sheet date, the effective current tax rate applicable for both 2018 and 2019 was 19% and the rate applied to deferred tax balances is 17% - being the substantively enacted tax rate when these balances are expected to be utilised.

Notes to the financial statements (continued)

10 Tangible assets

	Plant and Machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At beginning of year	1,252	184	274	1,710
Additions	227	16	-	243
Disposals	(216)	(7)	-	(223)
At end of year	1,263	193	274	1,730
Accumulated Depreciation				
At beginning of year	719	125	145	989
Charge for year	77	14	32	123
Disposals	(6)	(6)	-	(12)
At end of year	790	133	177	1,100
Net book value				
At 31 December 2019	473	60	97	630
At 31 December 2018	533	59	129	721

Included in motor vehicles are right-of-use assets with a net book value of £22,984 (31 December 2018: £111,184).

11 Stocks

	31 December 2019 £000	31 December 2018 £000
Raw materials and packaging	405	470
Finished goods and goods purchased for resale	210	210
Total	615	680

Notes to the financial statements (continued)

12 Debtors

	31 December 2019 £000	31 December 2018 £000
Trade debtors	446	559
Amounts owed by group undertakings: due in less than one year	3,951	2,249
Other receivables	105	97
	<u>4,502</u>	<u>2,905</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The Company participates in a cash pooling arrangement with certain other group companies. This arrangement allows the Company to draw upon or credit amounts to a separately designated facility within a cash pool account in the name of Akzo Nobel N.V. The Company operates the facility as if it were the Company's own bank account, however, the Company has no legal title. Accordingly, the amounts have therefore been included within amounts owed to group undertakings rather than cash at bank.

All parties to the arrangement are jointly and severally liable to the bank for any overdraft thereon. Included within amounts owed by group undertakings is £3,773,694 (2018: £2,218,211) in respect of the Company's share of the account.

13 Creditors: amounts falling due within one year

	31 December 2019 £000	31 December 2018 £000
Lease liabilities	4	41
Trade creditors	103	133
Amounts owed to group undertakings	158	950
Corporation tax	672	248
Other taxes and social security	7	19
Other creditors	189	83
	<u>1,133</u>	<u>1,474</u>

14 Creditors: amounts falling due after more than one year

	31 December 2019 £000	31 December 2018 £000
Lease liabilities	-	4
	<u>-</u>	<u>4</u>

Notes to the financial statements (continued)

15 Provision for liabilities and charges

Deferred tax liabilities

	Year ended 31 December 2019 £000	8 months ended 31 December 2018 £000
Deferred tax liability at the beginning of the year	49	73
Credit to Statement of Comprehensive Income	(21)	(24)
	<u>28</u>	<u>49</u>
Deferred tax liability at the end of the year	28	49

Deferred tax liabilities are attributable to the following:

	31 December 2019 £000	31 December 2018 £000
Unutilised capital allowances	<u>28</u>	<u>49</u>

16 Called up share capital

	31 December 2019 £000	31 December 2018 £000
<i>Authorised, allotted, called up and fully paid</i>		
50,000 (2018: 50,000) ordinary shares of £1 each	<u>50</u>	<u>50</u>

17 Pension Schemes

Defined contribution plans

The Company operates a defined contribution plan. The total expense relating to this plan was £148,000 (year ended 31 December 2018 - £151,000).

19 Ultimate parent company and parent undertaking of largest group of which the Company is a member

The Company is a subsidiary undertaking of International Paint Limited, a company incorporated in England and Wales. The Company was acquired by International Paint Limited on 30 June 2017.

The smallest and largest group in which the results of the Company are consolidated is that headed by Akzo Nobel N.V., incorporated in the Netherlands and that company is considered to be the ultimate parent company.

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

Notes to the financial statements *(continued)*

20 Post balance sheet events

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its fellow group companies operate is uncertain at this time.

As of the signing date of these financial statements management was not aware of any material adverse effects on the financial statements for the year ended December 31, 2019 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.