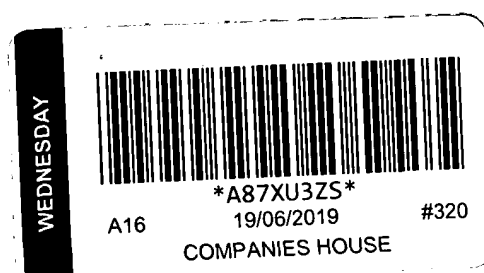


Colorcon European Holdings (No 5) Limited

Report and Financial Statements

31 December 2018



Directors

S J Batchelor
M T Hedman
D F Bain

Secretary

S J Batchelor

Auditors

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Bankers

HSBC Bank plc

Registered Office

Flagship House
Victory Way
Crossways
Dartford
Kent DA2 6QD

Strategic Report

Review of the business

The group's principal activities are the manufacture of colour dispersions for use primarily in the pharmaceutical industry and the supply of specialty excipients and related services designed for specific applications within the pharmaceutical industry. The group positions itself not merely as a supplier of these excipients but also as a speciality service provider enabling assistance of customers through solution provision.

Sales for the year increased from £228.4m to £241.4m. Underlying growth was in line with expectations after adjusting for the impact of exchange rates on Euro, USD and Indian Rupee denominated sales.

Operating profit per employee was £45,278 (2017 £27,994). During the period profit was positively impacted by foreign currency exchange rates.

The group aims to maintain a low level of working capital (net current assets less cash) as a percentage of its turnover. During the period this was 17.20%; an improvement over prior year (2017 – 18.10%).

As in previous years the group's ongoing programme of research and development is expected to result in new products being launched in the future. The most recent launches, Opadry EZ and Opadry SGR, at the end of 2017 / beginning of 2018 are proving popular with customers. The group also continues to invest in its production capabilities to ensure that it is able to keep pace with expected customer demand.

The directors believe that organic growth continues to be attainable in line with or marginally ahead of market growth for the region for the foreseeable future. In line with prior years the greatest areas of potential remain around conversion of in-house processes to proprietary solutions and conversion of hitherto uncoated solid oral dosage forms. Combined, these factors ensure that we consolidate our market leading position in EMEA. Gain in market share remains difficult given the significant share of the market already held.

Historically the primary threat to business growth remains an increasing level of competition from outside of the region, primarily from areas within Asia, where a lower cost base enables downward price pressure to be exerted on the company's off patent technologies. We remain confident that we are able to manage and minimise the impact of the threat to our business from this sector for the foreseeable future.

Additional pressures are resulting from the uncertainty in recent months around the impact of Brexit on trade with remaining EU members. Plans have however been implemented to enable Colorcon to continue to provide the same level of service to its customers as in the past as well as to mitigate any potential negative financial impacts.

With a large proportion of sales arising outside of the UK and being invoiced in Euros and Indian Rupees the group is susceptible to fluctuations in the currency markets.

Forward foreign currency contracts are used to reduce exposure to the variability of foreign exchange rates by fixing the rate in a foreign currency. These financial statements reflect the variance between the contract values and their market value as at 31st December 2018.

The group expects to pay dividends to its parent company for the foreseeable future and still continues to generate substantial cash balances.

The group enjoys a significant level of geographical market coverage within EMEA, India & Bangladesh and, as a result of this, expansion opportunities in new geographical markets remain limited. The group is, however, always seeking to identify potential acquisitions to add further strength to its existing product and customer service base. While some small acquisitions of customer portfolios have been made in recent years, because of the niche nature of the sector in which the company operates, significant acquisitions remain elusive.

Strategic Report (continued)

Principal risks and uncertainties

Exposure to price, credit, liquidity and cash flow risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the group's debtors are shown in note 13 to the financial statements.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets throughout the group. The group also manages liquidity risk via revolving credit facilities and long term debt as explained in note 15.

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future receipts from customers in foreign currencies. The group manages this risk, where significant, by use of derivatives as explained in notes 1 and 22 to the financial statements.

By order of the Board



Stephen Batchelor
Secretary
6th June 2019

Directors' report

Registered No. 8279155

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

Results and dividends

The group loss for the year after taxation, was £4,733,201 (2017 – profit of £779,561). Dividends totalling £57,390,000 (2017 - £43,410,000) were paid during the year.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the Strategic Report.

The financial position of the group, its cash flows and liquidity position are as presented in the financial statements and supporting notes.

The group has considerable financial resources together with long term contracts and relationships with a number of customers and suppliers across different geographic areas and occupies a commanding position in a heavily regulated niche market. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

Colorcon Inc, the group's ultimate parent has provided the directors with a letter of support at the time of approval of the financial statements indicating that they will provide such support to enable the group to meet their liabilities as they fall due for a period of at least 12 months from approval. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served during the year were as follows:

S J Batchelor
M T Hedman
D F Bain

Supplier payment policy

The group's policy is to determine terms and conditions of payment with suppliers when negotiating each transaction, ensure that suppliers are made aware of the agreed terms and how disputes are to be settled and abide by the terms of payment. The company does not have trade creditors. The number of days credit taken by the group for trade purchases at 31 December 2018 was 38 days (2017 – 37 days).

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The group operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the group has been communicated through company, department and team meetings and briefings. Employees have also been encouraged to present their suggestions and views on the group's performance, allowing free flow of information and ideas. Employees participate directly in the success of the business through the group's bonus scheme.

Directors' report (continued)

Slavery and Human Trafficking

Colorcon, Inc., and its subsidiaries, including Colorcon European Holdings (No 5) Limited (collectively, "Colorcon") are committed to responsible sourcing and to the prevention of human trafficking and slavery in its supply chain. Colorcon addresses this issue through a number of means.

Colorcon's Code of Business Conduct requires Colorcon employees to comply with all laws in the jurisdictions in which Colorcon does business, which would include those laws regarding the use of labour. Colorcon's Corporate Responsibility Statement and Guidelines prohibits Colorcon's use of child or forced labour.

Colorcon's standard supplier contract, currently in place with a number of its suppliers, requires the supplier to comply with all applicable laws in the jurisdictions in which the supplier produces and sells its product. In the standard supplier contract, Colorcon retains audit rights with regard to the supplier's compliance with the contractual provisions.

Colorcon's standard terms and conditions of purchase require the seller to warrant that all goods purchased by Colorcon have been manufactured in compliance with all applicable laws.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with s485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board



Stephen Batchelor
Secretary
6th June 2019

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 regulations.

Company law requires the directors to prepare financial statements for each financial year. 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). 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 group and the company and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Colorcon European Holdings (No 5) Limited

Opinion

We have audited the financial statements of Colorcon European Holdings (No 5) Limited for the year ended 31 December 2018 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Statement of Financial Position, the Group Statement of Cash Flows 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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 have nothing to report in respect of the following matters in relation to which the 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 group's or the parent 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.

Independent auditor's report (continued)

to the members of Colorcon European Holdings (No 5) Limited

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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 parent company 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued)

to the members of Colorcon European Holdings (No 5) Limited

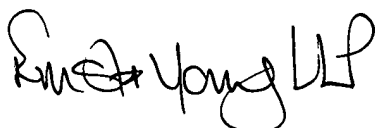
Auditor's responsibilities for the audit of the financial statements

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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.



Juliet E Thomas (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

400 Capability Green
Luton
United Kingdom
LU1 3LU

Date: 11th June 2019

Group statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Turnover	2	241,404,307	228,404,327
Cost of sales		(123,459,504)	(117,447,706)
Gross Profit		117,944,803	110,956,621
Distribution costs		(1,427,956)	(1,411,964)
Administrative expenses		(97,047,357)	(97,507,410)
Group operating profit	3	19,469,490	12,037,247
Gain on financial instruments at fair value through profit and loss		105,329	301,157
Bank interest receivable		782,938	523,504
Interest payable and similar charges	6	(852,935)	(907,290)
Other finance costs	7	(1,168,000)	(754,000)
Profit on ordinary activities before taxation		18,336,822	11,200,618
Tax on profit on ordinary activities	8	(23,070,023)	(10,421,057)
(Loss)/profit for the financial year		(4,733,201)	779,561
Other comprehensive income			
Exchange differences on retranslation of foreign operations		(1,221,166)	(1,325,216)
Remeasurement gain on defined benefit pension plan	20	8,814,000	705,000
Deferred tax movement on actuarial gain/loss	8	(1,498,380)	(119,850)
Total other comprehensive income/(loss)		6,094,454	(740,066)
Total comprehensive income for the year		1,361,253	39,495

Statement of changes in equity

for the year ended 31 December 2018

Group	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
	£	£	£
At 1 January 2017	2,000	387,132,528	387,134,528
Profit for the year	–	779,561	779,561
Other comprehensive income	–	(740,066)	(740,066)
Total comprehensive income for the year	–	39,495	39,495
Equity dividends paid (note 18)	–	(43,410,000)	(43,410,000)
At 31 December 2017	2,000	343,762,023	343,764,023
Loss for the year	–	(4,733,201)	(4,733,201)
Other comprehensive income	–	6,094,454	6,049,454
Total comprehensive income for the year	–	1,361,253	1,361,253
Equity dividends paid (note 18)	–	(57,390,000)	(57,390,000)
At 31 December 2018	2,000	287,733,276	287,735,276
Company	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
	£	£	£
At 1 January 2017	2,000	642,993,240	642,995,240
Profit for the year	–	43,103,898	43,103,898
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	43,103,898	43,103,898
Equity dividends paid (note 18)	–	(43,410,000)	(43,410,000)
At 31 December 2017	2,000	642,687,138	642,689,138
Profit for the year	–	80,066,041	80,066,041
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	80,066,041	80,066,041
Equity dividends paid (note 18)	–	(57,390,000)	(57,390,000)
At 31 December 2018	2,000	665,363,179	665,365,179

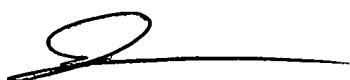
Group statement of financial position

at 31 December 2018

		2018	2017
		£	£
Fixed assets			
Intangible assets	9	252,255,771	315,319,714
Tangible assets	10	20,275,471	20,428,709
		<u>272,531,242</u>	<u>335,748,423</u>
Current assets			
Inventories	12	22,151,510	17,358,758
Debtors:	13		
amounts falling due within one year		49,107,869	46,582,090
amounts falling due after one year		3,515,425	4,882,835
		<u>74,774,804</u>	<u>68,823,683</u>
Cash at bank and in hand	19	23,896,004	47,571,765
		<u>98,670,808</u>	<u>116,395,448</u>
Creditors: amounts falling due within one year	14	(33,331,409)	(27,509,916)
		<u>65,339,399</u>	<u>88,885,532</u>
Net current assets			
		<u>337,870,641</u>	<u>424,633,955</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	15	(30,000,000)	(52,000,000)
Provision for liabilities	16	(1,305,365)	(1,393,932)
		<u>306,565,276</u>	<u>371,240,023</u>
Net assets excluding pension liability			
Defined benefit pension liability	20	(18,830,000)	(27,476,000)
		<u>287,735,276</u>	<u>343,764,023</u>
Net assets			
		<u>287,735,276</u>	<u>343,764,023</u>
Capital and reserves			
Called up share capital	17	2,000	2,000
Profit and loss account		287,733,276	343,762,023
		<u>287,735,276</u>	<u>343,764,023</u>
Shareholders' funds			
		<u>287,735,276</u>	<u>343,764,023</u>

These financial statements were approved by the Board of Directors on 6th June 2019 and are signed on its behalf by:

David Bain
Director



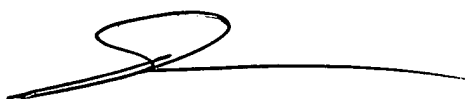
Company statement of financial position

at 31 December 2018

	Notes	2018 £	2017 £
Fixed assets			
Investments	11	695,000,000	695,000,000
Current assets			
Cash at bank and in hand		399,811	—
Creditors: amounts falling due within one year	14	(34,632)	(310,862)
Net current assets/(liabilities)		365,179	(310,862)
Total assets less current liabilities		695,365,179	694,689,138
Creditors: amounts falling due after more than one year	15	(30,000,000)	(52,000,000)
Net assets		665,365,179	642,689,138
Capital and reserves			
Called up share capital	17	2,000	2,000
Profit and loss account prior year		642,687,138	642,993,240
Profit for the financial year		22,676,041	(306,102)
Shareholders' funds		665,365,179	642,689,138

These financial statements were approved by the Board of Directors on 6th June 2019 and are signed on its behalf by:

David Bain
Director



Group statement of cash flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash inflow from operating activities	19(a)	38,514,576	68,595,115
Investing activities			
Interest received		826,704	304,503
Payments to acquire tangible fixed assets		(2,783,408)	(2,761,592)
Receipts from sales of tangible fixed assets		64,788	89,893
Net cash flow from investing activities		(1,891,916)	(2,367,196)
Financing activities			
Interest paid		(2,022,545)	(1,659,153)
Equity dividends paid	18	(57,390,000)	(43,410,000)
Net cash flow from financing activities		(59,412,545)	(45,069,153)
(Decrease)/increase in cash and cash equivalents		(22,789,885)	21,158,766
Effect of exchange rates on cash and cash equivalents		(637,499)	(378,071)
Cash and cash equivalents at 1 January		47,323,388	26,542,693
Cash and cash equivalents at 31 December	19(b)	23,896,004	47,323,388

Notes to the financial statements

at 31 December 2018

1. Accounting policies

Statement of compliance

Colorcon European Holdings (No 5) Limited is a limited company incorporated in England, registration number 8279155. The registered office is Flagship House, Victory Way, Crossways, Dartford, Kent, DA2 6QD. The company is limited by shares.

The Group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 December 2018.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the group. The Group has decided to adopt the single-statement approach to the presentation of the income statement.

Going concern

The directors have a reasonable expectation that the company has the adequate resources to continue in operational existence for the foreseeable future. Colorcon Inc, the group's ultimate parent has provided the directors with a letter of support at the time of approval of the financial statements indicating that they will provide such support to enable the group to meet their liabilities as they fall due for a period of at least 12 months from approval. In accordance with this, they continue to adopt the going concern basis in preparation of the financial statements.

Basis of Consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2018. The year end for Colorcon Asia Private Limited is 31 March 2018, therefore interim figures have been consolidated.

No profit and loss account is presented for Colorcon European Holdings (No 5) Limited, as permitted by section 408 of the Companies Act 2006.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the period end date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 20.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Taxation

The Group establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

Goodwill and intangible assets

The Group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is ten years. Provision is made for any impairment.

Impairment of assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the statement of comprehensive income.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment. Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Short leasehold properties	–	over the periods of the leases (5-25 years)
Freehold properties	–	30 years
Plant and equipment	–	3-10 years
Motor vehicles	–	3-5 years

Assets in the course of construction

Expenditure incurred in respect of assets under the course of construction is capitalised over the period of development. On completion, the costs are transferred to the appropriate fixed asset category and depreciated in accordance with group policy.

Investments

Fixed asset investments are stated at cost less provision for impairment. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based upon the purchase price of raw materials plus labour costs and a reasonable proportion of manufacturing overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

Research and development

Research and development expenditure is written off as incurred.

Revenue recognition

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for sale of goods. Revenue is measured at the fair value of the consideration received, excluding rebates, VAT and other sales taxes or duty.

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, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Foreign currencies

Transactions denominated in foreign currencies are recorded at a spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the rate prevailing at the period end date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of comprehensive income.

For the purposes of consolidating overseas subsidiaries, the closing rate method is used, under which translation gains or losses are recognised in other comprehensive income. Profits and losses of overseas subsidiary undertakings are translated on a monthly basis using the prevailing monthly average exchange rate.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the period end date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the period end date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the period end date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the period end date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the period end date.

Operating leases

The group enters into operating leases.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Pensions

The group provides pensions to some of its employees through a defined benefit plan. The assets of the plan are held independently of the group by trustees of the plan.

The service cost of providing retirement benefits to employees during the year is charged to the operating profit or loss in the year. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit or loss in the year. The expected return on the assets of the plan during the year based on the market value of plan assets at the start of the financial year is included within other finance costs. This also includes a charge representing the expected increase in liabilities of the plan during the year, arising from the liabilities of the plan being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in other comprehensive income, together with differences from changes in assumptions. The deficit on the defined benefit pension plan is reported separately on the statement of financial position; the associated deferred tax is also reported on the statement of financial position within debtors falling due after more than one year.

Contributions to the defined contribution plan are recognised in the statement of comprehensive income in the period in which they become payable.

Further information on pension costs is provided in note 20.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

Provisions for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the period end date, and are discounted to present value where the effect is material using a pre-tax discount rate.

Financial instruments

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

The group does not undertake any hedge accounting transactions.

2. Turnover

Group turnover comprises the value of sales (excluding VAT and similar taxes, and intra-group transactions) of goods and services in the normal course of business.

The directors are of the opinion that the group operates within one segment for the purposes of reporting results by class of business. An analysis of turnover by geographical market is given below.

Geographical analysis of turnover by origin:

	2018 £	2017 £
United Kingdom	150,797,300	147,616,257
Rest of World	90,607,007	80,788,070
	<u>241,404,307</u>	<u>228,404,327</u>

Geographical analysis of turnover by destination:

	2018 £	2017 £
United Kingdom	11,184,578	11,499,558
Europe	109,158,826	106,427,866
Rest of World	121,060,903	110,476,903
	<u>241,404,307</u>	<u>228,404,327</u>

Notes to the financial statements

at 31 December 2018

3. Group operating profit

This is stated after charging:

	2018	2017
	£	£
Auditor's remuneration – audit services for company	5,725	5,725
– audit services for subsidiaries	182,261	135,269
– taxation compliance services	21,500	30,000
Foreign exchange differences	53,044	1,418,912
Operating lease rentals – equipment & motor vehicles	56,635	55,201
– other	859,303	843,111
Amortisation of goodwill (see note 9)	63,063,943	63,063,943
Depreciation of owned tangible fixed assets (see note 10)	2,632,264	2,745,236
Staff costs (see note 5)	19,263,656	17,971,357
Management charges	2,984,652	3,319,050
	<u> </u>	<u> </u>

4. Directors' remuneration

	2018	2017
	£	£
Remuneration in respect of qualifying services	464,545	418,748
Pension contributions	7,500	11,298
Amounts receivable under long term incentive plans	423,401	260,217
	<u> </u>	<u> </u>
	<u>895,446</u>	<u>690,263</u>

The directors of the company are also directors or employees of other group companies and are remunerated by those companies. The directors do not consider it practicable to apportion the remuneration for those directors to the services they provide to this company as directors.

The remuneration, excluding pension contributions, of the highest paid director is £620,413 (2017 - £454,608). Payments amounting to £7,500 (2017 - £6,750) have been made to a defined contribution plan. Retirement benefits are accruing to the following number of directors:

	2018	2017
	No.	No.
Members of defined contribution pension plan	<u>2</u>	<u>2</u>

Key management personnel

All directors who have authority and responsibility for planning, directing and controlling the activities of the group are considered to be key management personnel. Total remuneration in respect of these individuals is £887,946 (2017 - £678,965).

Notes to the financial statements

at 31 December 2018

5. Staff costs

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

	2018 No.	2017 No.
Production	314	316
Selling and distribution	60	58
Administration	56	56
	<u>430</u>	<u>430</u>

The aggregate payroll costs of these persons were as follows:

	2018 £	2017 £
Wages and salaries	15,239,960	14,165,600
Social security costs	1,593,334	1,404,132
Other pension costs	2,430,362	2,401,625
	<u>19,263,656</u>	<u>17,971,357</u>

Included in other pension costs are £1,000,000 (2017 - £1,000,000) in respect of the defined benefit plan and £1,177,555 (2017 - £1,147,974) in respect of the defined contribution plan.

6. Interest payable and similar charges

	2018 £	2017 £
Bank loans and overdrafts	<u>852,935</u>	<u>907,290</u>

7. Other finance costs

	2018 £	2017 £
Interest on net defined benefit pension liability (note 20)	<u>1,168,000</u>	<u>754,000</u>

Notes to the financial statements

at 31 December 2018

8. Tax

a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018 £	2017 £
Current tax:		
UK corporation tax at 19% (2017 – 19.25%)	9,238,980	–
Foreign tax:		
Current tax on profit for the year	14,153,686	10,603,562
Total current tax	23,392,666	10,603,562
Deferred tax:		
Reversal of timing differences: non-pension related	(294,083)	(167,156)
Adjustments in respect of prior years	–	(57,169)
Reversal of timing differences: pension related	(28,560)	41,820
	(322,643)	(182,505)
Tax on profit on ordinary activities (note 8(c))	23,070,023	10,421,057

b) Tax included in group statement of other comprehensive income

The tax charge is made up as follows:

	2018 £	2017 £
Deferred tax:		
Actuarial gain on pension plan	1,498,380	119,850

Notes to the financial statements

at 31 December 2018

8. Tax (continued)

c) Factors affecting the total tax charge

The tax assessed for the year differs from the average standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	18,336,822	11,200,618
Profit on ordinary activities multiplied by average standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	3,483,996	2,156,119
Effects of:		
Expenses not deductible for tax purposes	10,924,783	11,230,535
Group relief	–	(8,405,250)
Higher tax rates on overseas earnings	4,735,692	3,899,944
Adjustments to tax charge in respect of previous years	–	(57,169)
Foreign taxes suffered	3,925,552	1,596,878
Tax charge for the year (note 8(a))	23,070,023	10,421,057

d) Factors affecting the future tax charges

The Finance Act 2016 confirmed the main rate of corporation tax would remain at 20% for 2016/17 and 19% from 1 April 2017. A further reduction in the UK corporation tax rate to 17% from the previously planned 18% from 1 April 2020 was substantively enacted in September 2016. Deferred tax has been recognised at a rate of 17% (2017 - 17%).

Notes to the financial statements

at 31 December 2018

8. Tax (continued)

e) Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2018 £	2017 £
Included in debtors (note 13)	3,703,746	5,033,050
Included in provisions for liabilities (note 16)	(250,365)	(403,932)
	<u>3,453,381</u>	<u>4,629,118</u>
Accelerated capital allowances	(122,032)	(347,700)
Bad debts	61,579	56,199
Bonuses	249,440	169,691
(Gain)/loss on financial assets at fair value	45,577	63,483
Pension costs – DB plan	3,201,100	4,670,920
Pension costs – DC plan	17,717	16,525
	<u>3,453,381</u>	<u>4,629,118</u>

The group expects deferred tax assets of £188,321 to reverse in 2019.

Notes to the financial statements

at 31 December 2018

9. Intangible fixed assets

	<i>Group goodwill £</i>
Cost:	
At 1 January 2018 and 31 December 2018	630,639,428
Amortisation:	
At 1 January 2018	315,319,714
Charge for the year	63,063,943
At 31 December 2018	378,383,657
Net book value:	
At 31 December 2018	252,255,771
At 1 January 2018	315,319,714

Goodwill is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Having considered these factors the directors believe that a useful life of 10 years is appropriate for goodwill.

Notes to the financial statements

at 31 December 2018

10. Tangible assets

	<i>Assets in the course of construction</i>	<i>Freehold land and buildings</i>	<i>Leasehold land and buildings</i>	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£	£	£	£	£	£
Cost:						
At 1 January 2018	1,008,035	12,321,693	2,696,425	18,153,147	503,947	34,683,247
Additions	2,177,174	107,361	—	498,873	—	2,783,408
Disposals	—	—	(174,501)	(230,755)	(43,848)	(449,104)
Reclassification	(754,522)	11,830	115,021	627,671	—	—
Exchange difference	(99)	(112,735)	(21,819)	(328,321)	(3,936)	(466,910)
At 31 December 2018	2,430,588	12,328,149	2,615,126	18,720,615	456,163	36,550,641
Depreciation:						
At 1 January 2018	—	2,996,968	1,467,181	9,592,602	197,787	14,254,538
Charge for the year	—	324,484	221,826	1,957,236	128,718	2,632,264
Disposals	—	—	(174,378)	(200,351)	(43,848)	(418,577)
Reclassification	—	—	—	—	—	—
Exchange difference	—	(18,064)	(14,845)	(159,046)	(1,100)	(193,055)
At 31 December 2018	—	3,303,388	1,499,784	11,190,441	281,557	16,275,170
Net book value:						
At 31 December 2018	2,430,588	9,024,761	1,115,342	7,530,174	174,606	20,275,471
At 1 January 2018	1,008,035	9,324,725	1,229,244	8,560,545	306,160	20,428,709

11. Investments

<i>Company</i>	<i>2018</i>	<i>2017</i>
	£	£
Cost:		
Subsidiary undertakings	695,000,000	695,000,000

Notes to the financial statements

at 31 December 2018

11. Investments (continued)

The undertakings in which the company's interest at the year end is at least 20% are as follows:

<i>Subsidiary undertakings</i>	<i>Country of registration or incorporation</i>	<i>Principal activity</i>	<i>Class and percentage of shares held</i>
Colorcon Limited (a) *	England and Wales	Supply of dispersions and excipients to the pharmaceutical industry	100% ordinary shares
Colorcon Asia Private Limited (b)	India	Supply of dispersions and excipients to the pharmaceutical industry	100% ordinary shares

*This subsidiary is held directly by Colorcon European Holdings (No 5) Limited. Colorcon Asia Private Limited is indirectly owned.

Registered office addresses for the above companies are:

- a) Flagship House, Victory Way, Crossways, Dartford, Kent, DA2 6QD
- b) Plot Nos M14-M18, Verna Industrial Estate, Verna, Goa

12. Inventories

	<i>2018</i>	<i>Group 2017</i>	<i>2018</i>	<i>Company 2017</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Raw materials and consumables	17,758,323	12,509,798	—	—
Finished goods	4,393,187	4,848,960	—	—
	<u>22,151,510</u>	<u>17,358,758</u>	<u>—</u>	<u>—</u>

The difference between purchase price or production cost of inventories and their replacement cost is not material.

Inventories recognised as an expense in the period were £107,893,023 (2017 - £102,643,592). Impairment losses recognised in the Statement of Comprehensive Income were £370,584 (2017 - £254,242).

Notes to the financial statements

at 31 December 2018

13. Debtors

	2018	Group 2017	2018	Company 2017
	£	£	£	£
Trade debtors	41,103,518	38,933,308	—	—
Amounts owed by fellow subsidiary undertakings	226,807	1,301,490	—	—
VAT recoverable	2,509,043	860,242	—	—
Other debtors	2,047,179	2,513,996	—	—
Prepayments and accrued income	2,792,746	2,314,687	—	—
Corporation tax	240,255	508,152	—	—
Deferred tax (note 8(e))	3,703,746	5,033,050	—	—
	<u>52,623,294</u>	<u>51,464,925</u>	<u>—</u>	<u>—</u>

Amounts falling due after more than one year included above are:

Deferred tax	<u>3,515,425</u>	<u>4,882,835</u>	<u>—</u>	<u>—</u>
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14. Creditors: amounts falling due within one year

	2018	Group 2017	2018	Company 2017
	£	£	£	£
Trade creditors	11,843,325	10,916,836	—	—
Amounts owed to group undertakings	7,135,103	6,839,248	8,681	—
Corporation tax	4,333,311	—	—	—
Other taxes and social security costs	328,943	315,827	—	—
Derivative financial instruments (note 22)	268,099	373,428	—	—
Accruals and deferred income	8,727,500	8,150,066	25,951	62,485
Other creditors	695,128	666,134	—	—
Bank overdraft	—	248,377	—	248,377
	<u>33,331,409</u>	<u>27,509,916</u>	<u>34,632</u>	<u>310,862</u>

Included in group undertakings above are:

Amounts owed to parent undertakings	6,555,978	6,041,835	—	—
Amounts owed to subsidiary undertakings	—	—	8,681	—
Amounts owed to fellow subsidiary undertakings	579,125	797,413	—	—
	<u>7,135,103</u>	<u>6,839,248</u>	<u>8,681</u>	<u>—</u>

Notes to the financial statements

at 31 December 2018

15. Creditors: amounts falling due after more than one year

	2018	Group 2017	2018	Company 2017
	£	£	£	£
Bank Loan	30,000,000	52,000,000	30,000,000	52,000,000

The above amount relates to a loan of £30,000,000 repayable to PNC Bank at 2.27% under a Group Multi Currency Revolving Credit Facility repayable in 2021. A repayment of £22,000,000 was made in 2018.

16. Provisions for liabilities

	Deferred tax £	Dilapidation provision	Group total £	Company total £
At 1 January 2018	403,932	990,000	1,393,932	—
Additions for the year	—	65,000	65,000	—
Utilised during the year	(153,567)	—	(153,567)	—
At 31 December 2018	250,365	1,055,000	1,305,365	—

Dilapidation provision

Upon expiration of the lease, the company has a contractual obligation to return the property back to the landlord in the same state of repair as when the lease began. Therefore, a dilapidation provision has been established. It is expected to be utilised within 14 years.

17. Issued share capital

	No.	2018 £	No.	2017 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1.00	2,000	2,000	2,000	2,000

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

18. Dividends

	2018 £	2017 £
Interim dividend paid of £28,695 (2017 £21,705) per ordinary share	57,390,000	43,410,000

Notes to the financial statements

at 31 December 2018

19. Notes to the statement of cash flows

(a) Reconciliation of profit to net cash inflow from operating activities

	2018 £	2017 £
Group profit for the year (including loss/gain on financial instruments at fair value through profit and loss)	19,574,819	12,338,404
Depreciation of tangible fixed assets	2,632,264	2,745,236
Amortisation of goodwill	63,063,943	63,063,943
Difference between pension charge and cash contributions	(1,000,000)	(1,000,000)
(Profit) on sale of tangible fixed assets	(34,261)	(38,235)
(Increase)/decrease in inventories	(4,961,074)	2,449,506
(Increase)/decrease in debtors	(3,176,478)	1,000,599
(Decrease) in creditors and provisions	(18,793,179)	(852,624)
Taxation		
Corporation tax paid	(4,905,669)	—
Overseas tax paid	(13,885,789)	(11,111,714)
Net cash inflow from operating activities	<u>38,514,576</u>	<u>68,595,115</u>

(b) Cash and cash equivalents

	At 31 December 2018 £	At 31 December 2017 £
Cash at bank and in hand	23,896,004	47,571,765
Bank overdrafts	—	(248,377)
	<u>23,896,004</u>	<u>47,323,388</u>

Notes to the financial statements

at 31 December 2018

20. Pensions

The company's subsidiary undertaking, Colorcon Limited, operates a funded defined benefit pension plan for its employees. The pension cost relating to this plan is assessed in accordance with the advice of independent actuaries. The cost of pensions is spread over the average expected working lives of the group employees who are plan members.

The pension charge for the year was £Nil (2017 – £Nil).

The latest valuation of the plan was carried out by Capita, consulting actuaries, as at 1 July 2018. The projected unit method was used and the principal actuarial assumptions adopted were that the investment return would be 4.4% per annum, that salary increases would average 3.4% per annum. The assumed rates for pension increases are 2.1% per annum for Guaranteed Minimum Pensions (GMP's) accrued after 5 April 1988 and 3.3% per annum for non-GMPs.

At the date of the latest actuarial valuation, the market value of the assets of the plan was £43,767,000 and the actuarial value of the assets was sufficient to cover 69% of the benefits that had accrued to members after allowing for expected future increase in earnings. The company was paying an additional fixed amount of £1,000,000 per annum from 1 July 2016 increasing to £1,500,000 per annum from 1 April 2019.

The total amount relating to pensions recognised in the profit and loss includes £1,177,555 (2017 - £1,147,974) relating to defined contribution plans.

The statement of financial position disclosures as at 31 December 2018 and 31 December 2017 were based on full valuations at 1 July 2018 and 1 July 2015 respectively, and updated by the actuary where necessary.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes to the financial statements

at 31 December 2018

20. Pensions (continued)

Plan assets

The fair value of the plan's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the plan's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	<i>Value at 31 December 2018 £000</i>	<i>Value at 31 December 2017 £000</i>
Plan assets at fair value		
Equities	27,616	29,268
Bonds	6,988	7,186
Gilts	6,988	6,968
Cash	209	131
Insurance contracts	42	—
Fair value of plan assets	41,843	43,553
Present value of plan liabilities	(60,673)	(71,029)
Defined benefit pension plan deficit	(18,830)	(27,476)
Related deferred tax asset	3,201	4,671
Net liability	(15,629)	(22,805)

The pension plans have not invested in any of the group's own financial instruments or in properties or other assets used by the group.

The amount recognised in the group statement of comprehensive income for the year is analysed as follows:

	<i>Value at 31 December 2018 £000</i>	<i>Value at 31 December 2017 £000</i>
<i>Recognised in the statement of comprehensive income</i>		
Net Interest on net defined liability	1,168	754
Total recognised in the statement of comprehensive income	1,168	754

Notes to the financial statements

at 31 December 2018

20. Pensions (continued)

	<i>Value at 31 December 2018 £000</i>	<i>Value at 31 December 2017 £000</i>
<i>Recognised in other comprehensive income</i>		
Actual return on plan assets – (losses)/gains	(1,864)	2,282
Less: amounts included in net interest on the net defined benefit liability	(1,091)	(1,110)
	<hr/>	<hr/>
Remeasurement (losses) and gains - return on plan assets excluding interest income	(2,955)	1,172
Actuarial gains and (losses)	11,769	(467)
	<hr/>	<hr/>
Remeasurement gains recognised in other comprehensive income	8,814	705
	<hr/>	<hr/>

The main assumptions used by the actuary in this valuation were:

	<i>2018</i>	<i>2017</i>
<i>Main assumptions:</i>		
Rate of salary increase	3.40%	3.40%
Rate of increase in pensions in payment	2.30%	2.30%
Discount rate	2.90%	2.50%
Inflation assumption	2.40%	2.40%
Post-retirement mortality		
Current pensioners at 65 - male	22.1 years	22.2 years
Current pensioners at 65 - female	24.1 years	24.2 years
Future pensioners at 65 - male	23.4 years	23.6 years
Future pensioners at 65 - female	25.6 years	25.6 years

The post-mortality assumptions allow for expected increases in longevity. The “current” disclosures above relate to assumptions based on longevity (in years) following retirement at the period end date, with “future” being that relating to an employee retiring in 2035.

The plan was closed to future accrual benefits with effect from 30 April 2016. The company was paying deficit reduction contributions of £1,000,000 per annum from 1 July 2016 increasing to £1,500,000 from 1 April 2019 until 31 December 2030.

The total contributions to the defined benefit plan in 2019 are expected to be £1,375,000 for the group (2018 – £1,000,000).

Notes to the financial statements

at 31 December 2018

20. Pensions (continued)

Changes in the present value of the defined benefit obligations are analysed as follows:

	£000
As at 1 January 2017	69,374
Current service cost	–
Interest cost	1,864
Benefits paid	(676)
Plan participants and other contributions	–
Actuarial losses	467
	<hr/>
As at 1 January 2018	71,029
Current service cost	–
Interest cost	1,765
Benefits paid	(846)
Plan participants and other contributions	–
Actuarial gains	(11,769)
Past service cost	494
	<hr/>
As at 31 December 2018	<u>60,673</u>

The defined benefit obligation arises from plans that are wholly or partly funded.

Changes in the fair value of plan assets are analysed as follows:

	£000
As at 1 January 2017	40,947
Interest income	1,110
Employer contributions	1,000
Benefits paid	(676)
Plan participants and other contributions	–
Remeasurement gains – return on plan assets excluding interest income	1,172
	<hr/>
As at 1 January 2018	43,553
Interest income	1,091
Employer contributions	1,000
Benefits paid	(846)
Plan participants and other contributions	–
Remeasurement losses – return on plan assets excluding interest income	(2,955)
	<hr/>
As at 31 December 2018	<u>41,843</u>

Notes to the financial statements

at 31 December 2018

21. Other financial commitments

Contingent liabilities

The group has given indemnities to certain banks in respect of customs bonds and other guarantees which amounted to £542,273 (2017 - £543,774). The directors do not expect these indemnities to give rise to a loss.

The group and company are party to an unlimited multilateral guarantee and a group banking facility comprising of overdraft, foreign currencies, money markets and engagements. In the opinion of the directors, the possibility of any outflow of resources in settlement is remote.

Lease commitments

The group has entered into leasing agreements in respect of plant, machinery and motor vehicles. In addition the group leases certain of its premises on short and long-term leases. Total commitments are as shown below in respect of operating leases in the following periods:

	2018 £	2017 £
Not later than one year	899,872	865,723
Later than one year and not later than five years	2,648,288	2,558,160
Later than five years	3,801,007	4,319,814
	<u>7,349,167</u>	<u>7,743,697</u>

There were no company lease commitments.

In addition to the leases in the above schedule, the group has a commitment to pay £178,660 per annum (2017 - £178,660) in respect of a property lease. The total commitment is £246,512 until the lease expires in 2020. The leased asset is used by former subsidiary, Micron Technologies Limited, who has borne the current year's cost.

22. Financial instruments

	2018 £	Group 2017 £	2018 £	Company 2017 £
<i>Financial liabilities at fair value through profit and loss</i>				
Long term incentive plan	(2,743,994)	(1,777,049)	—	—
Forward foreign currency contracts	(268,099)	(373,428)	—	—

The group enters into forward foreign currency contracts to hedge future currency exposure. The fair values of the assets and liabilities held at fair value through the statement of comprehensive income at the period end date are determined using quoted prices. Where quoted prices are not available for derivatives the fair value has been calculated by discounting the expected future cash flows at prevailing interest rates. The foreign exchange options all expire within the next 12 months. The notional amounts of the forward foreign currency contracts at 31 December 2018 were £47,076,245 (2017 - £46,404,168).

Notes to the financial statements

at 31 December 2018

23. Related party transactions

The group has taken advantage of the exemption in section 33.1A of FRS 102 'Related Party Disclosures' not to disclose transactions with subsidiaries in note 11, on the basis that these companies are wholly owned subsidiaries and have been consolidated within these financial statements.

Sales of £2,045,648 (2017 - £2,363,335) to and purchases of £24,852,400 (2017 - £25,995,189) from these related parties have been included in these financial statements. The group also pays management charges and royalties to other members of the Colorcon group (note 3).

As at 31 December 2018 debtors included £226,807 (2017 - £1,301,490) and creditors included £7,135,103 (2017 - £6,839,248) in respect of amounts due from/to related parties.

24. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Colorcon Incorporated, which is incorporated in the United States of America.

The largest group in which the financial statements of Colorcon European Holdings (No 5) Limited and its subsidiary undertakings are consolidated is that headed by Colorcon Incorporated. The financial statements of Colorcon Incorporated are not available to the public.