Akzo Nobel Finance Limited

Annual Report and Financial Statements
31 December 2018
Registered number 8478849

Contents

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2018.

Principal Activities

The Company's principal activity is to provide financing to fellow subsidiaries of Akzo Nobel N.V., the Company's immediate parent and ultimate parent company of the Group.

Business Review

The Company recorded €66m (2017: €70m) in net interest income and a net exchange loss of €35m (2017: loss €37m) on the Company's non-euro denominated loan book. After an administration charge of €1m (2017: €1m), a gain on sale of a portion of the Company's loan book of €5m and a loss on reduction in the share capital of the Company's subsidiary of €20m, the Company recorded a profit before taxation of €13m (2017: €32m).

The results for the year ended 31 December 2018 are set out on page 7 of the financial statements.

The net assets of the Company as at 31 December 2018 were €1,509m (2017: €1,858m).

On 21 December 2017, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel Finance (2) Limited confirming its intention to prepay a sum of USD 186,564,706 against the loan of USD 879,583,000 with effect from 1 January 2018.

As a result of the decision by Akzo Nobel N.V. to separate its global businesses into two distinct and standalone groups: specialty chemicals and paints and coatings; the Company entered into an agreement to transfer its portfolio of loans with specialty chemicals companies to Akzo Nobel Chemicals Finance B.V. with effect from 1 January 2018, for a consideration of €519,028,913. The transfer generated a profit of €5m recorded in the Statement of Comprehensive income.

On 3 January 2018, the Company received surplus assets in the amount of USD 206,254,257 (€171,229,303) generated by the reduction of share capital in its subsidiary, Akzo Nobel Finance (2) Limited. The transaction led to the Company recording a loss in value of €20m recorded in the Statement of Comprehensive income.

On 14 February 2018, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €110,000,000 against the 2A Loan of €475,000,000. On the same date, the directors declared an interim dividend of €200,000,000 to all shareholders on the Register, in the amount of €123.35 per share (2017: Nil).

On 22 February 2018, the Company reduced its share capital by €154,000 and its share premium by €153,846,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

During the year, the Company entered into a variety of new loans and will continue to do so, based on the directors' careful consideration of the funding proposals presented to the Board and a set process of internal checks and controls.

At the year end, the principal value of the Company's Loan Book was €1,842m (2017: €2,311m).

Governance

The directors of the Company hold regular board meetings to analyse and discuss the financial results, performance of the Loan Book, new funding proposals and operations of the Company. There is also a set process in place for preparation, sign-off and delivery of funding proposals prior to submission to the Board, as well as a clear process for approving and signing loan facilities which meets the requirements of the Companies Act 2006 and intra-group procedures.

Principal risks and uncertainties

The principal risk for the Company is the exposure to adverse movements in the exchange rates of the Company's Loan Book. The Company manages this risk through the use of forward exchange contracts in line with the Company's policy on hedging. The Company's overall exchange exposure is reviewed on a daily basis and is hedged accordingly. The gain or loss resulting from exchange movements is reviewed by the Board of Directors of the Company on a regular basis.

Key Performance Indicators

The key performance indicators for the Company are listed below:

Indicator	2018	2017	Delta
Interest Income	€92m	€104m	(€12m)
Average interest rate on loans due after more than one year	5.11%	2.65%	+2.46%

Strategic Report (*continued*)

Post Balance Sheet Events

During 2019 the Akzo Nobel Group undertook a review of its group financing activities. Following this review a decision was made to arrange for all intra-group funding to be undertaken from the Group's ultimate parent company, Akzo Nobel NV (Netherlands). As a result of this decision, the Board of Akzo Nobel Finance Limited approved the transfer of its loan book to its ultimate parent company, at market value, in three stages, the first stage taking place in 2019 and the second and third stages taking place, or expected to take place, in 2020. As a consequence of the divestment of the intra group loan book, the Company would have excess capital for which there was no immediate purpose. Accordingly, it was agreed to return share capital and share premium to the ultimate parent company, and to partially repay the intra group "2A" loan to the ultimate group parent company.

On 15 November 2019 the Company was repaid USD 122,618,162 from Akzo Nobel Inc. when the receivable loan was due.

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, AkzoNobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income. The outstanding loan balance between the parties following the release is zero.

On 11 December 2019 the Company's immediately owned subsidiary, Akzo Nobel Finance (2) Limited, reduced its share capital by reducing the nominal value of each Ordinary Share from USD 1.00 to USD 0.000000001521. Following the reduction, the issued share capital of the subsidiary was 657,328,744 Ordinary Shares with a total value of USD 1.00. The reduction in Share Capital was recorded as a credit to Other Distributable Reserves within the books of Akzo Nobel Finance (2) Limited. The reallocation did not lead to an impairment to be recorded in the books of the Company at balance sheet date.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 500,000,000 plus accrued interest of USD 1,483,167 due from Akzo Nobel Inc to Akzo Nobel NV and received proceeds of USD 565,307,360. The loan had an expiry date of 30 November 2021.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 380,000,000 plus accrued interest of USD 18,948,155 due from Akzo Nobel Inc to Akzo Nobel NV and received proceeds of USD 409,452,494. The loan had an expiry date of 28 December 2020.

On 11 December 2019 the Company reduced its share premium by €750,000,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

On 6 January 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €175,000,000 against the 2A Loan of €365,000,000

On 28 February 2020, the Company agreed to novate, via 14 separate deeds, intercompany loan receivables with book values at that date of €781,000,000. At that date the value of intercompany loan receivable balance was €917,000,000 The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel NV. The deeds were to be transacted before 31 December 2020 with the majority being transacted in March 2020.

On 27 May 2020, the Company agreed to novate, via 2 separate deeds, intercompany loan receivables with book values at that date of €68,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel NV. The deeds were to be transacted before 31 December 2020.

On behalf of the Board

B Williams

B Williams
Director

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

5 October 2020

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

Dividend

On 14 February 2018, the directors declared an interim dividend of €200,000,000 to all shareholders on the Register, in the amount of €123.35 per share (2017:Nil).

Directors

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

J. Keane	
S. Ray	
M. Smalley	
F. O'Shea	(resigned 31 August 2018)
D. Turner	(appointed 31 August 2018, resigned 1 September 2020)
B. Williams	(appointed 1 September 2020)

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the current or prior financial year.

Post Balance Sheet Event

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.

Financial Risk Management

Financial risk includes price risk, credit risk, liquidity risk, foreign exchange risk, and cash flow risk. These are addressed and managed at a group level as disclosed in the AkzoNobel Annual Report 2018, pages 131 to 134 and may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

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.

Future developments

The directors feel that the Company is well placed to continue progress during 2019.

Directors' Report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

- 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 have been appointed as the Company's auditor, holding office until to the end of the next year for appointing auditors in accordance with section 485(4c) of the Companies Act 2006.

On behalf of the Board

S. Ray
Director

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

5 October 2020

Independent auditors' report to the members of Akzo Nobel Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Akzo Nobel Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

Independent auditors' report to the members of Akzo Nobel Finance Limited (continued)

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

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In 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 Directors' Responsibilities Statement set out on page 4, 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.

Miles Saunders

Miles Saunders (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
6 October 2020

Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	**2018**	2017
		€m	€m
Administrative expenses		**(1)**	(1)
Interest receivable and similar income	*7*	**92**	113
Interest payable and similar expenses	*8*	**(63)**	(80)
Profit on transfer of loan assets		**5**	-
Loss on disposal of shares in subsidiary		**(20)**	-
Profit before taxation		**13**	32
Tax on profit	*9*	**(8)**	(6)
Profit for the financial year		**5**	26
Total comprehensive income for the year		**5**	26

There are no items of other comprehensive income in either year.

Balance Sheet
at 31 December 2018

	Note	**2018 €m**	2017 €m
Fixed assets			
Investments	*10*	**1,301**	1,480
Current assets			
Debtors (including €770m (2017: €1,494m) due after more than one year)	*11*	**1,213**	1,673
Cash at bank and in hand		**-**	-
Creditors: amounts falling due within one year	*12*	**(640)**	(241)
Net current assets		**573**	1,432
Creditors: amounts falling due after more than one year	13	**(365)**	(1,054)
Net assets		**1,509**	1,858
Capital and reserves			
Called up share capital	*15*	**2**	2
Share premium account		**1,466**	1,620
Retained earnings		**41**	236
Total shareholders' funds		**1,509**	1,858

The notes on pages 10 to 21 form part of these financial statements.

These financial statements on pages 7 to 21 were authorised for issue by the board of directors on 5 October 2020 and were signed on its behalf by:

M. Smalley

Director

Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital €m	Share Premium account €m	Retained earnings €m	Total shareholders' funds €m
Balance at 1 January 2017	2	1,620	**210**	**1,832**
Profit for the financial year	-	-	26	26
Total comprehensive income for the year	-	-	26	26
Balance at 31 December 2017	**2**	**1,620**	**236**	**1,858**

	Called up share capital €m	Share Premium account €m	Retained earnings €m	Total shareholders' funds €m
Balance at 1 January 2018	2	1,620	236	1,858
Profit for the financial year	-	-	5	5
Total comprehensive income for the year	-	-	**5**	**5**
Capital reduction	-	(154)	-	(154)
Dividends paid	-	-	(200)	(200)
Balance at 31 December 2018	**2**	**1,466**	**41**	**1,509**

On 14 February 2018, the directors declared an interim dividend of €200,000,000 to all shareholders on the Register, in the amount of €123.36 per share (2017:Nil).

On 22 February 2018, the Company reduced its share capital by €154,000 and its share premium by €153,846,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

Notes to the Financial Statements

1 General information

Akzo Nobel Finance Limited (the "Company") is a private Company limited by shares and is incorporated and domiciled in the UK. The Company registration number is 8478849 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 and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") under historical cost convention in Euro. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements are prepared on the historical cost basis and derivative financial assets and financial liabilities measured at fair value through profit and loss.

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.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

- Statement of Compliance with IFRS
- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions entered in to between two or more members of a group;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- 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.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.2 New standards, amendments and IFRIC interpretations

In 2018 the most significant changes in accounting policies adopted by the Company relate to adoption of IFRS 9 "Financial instruments". This standard has no material impact on the financial statements of the Company.

2.3 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.

2.4 Interest receivable/ (payable) and similar income/ (expense)

Interest receivable/ (payable) and similar income/ (expense) comprises interest on amounts owed by / (owed to) group undertakings 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, net exchange movements on amounts owed by/ (owed to) group undertakings and movements in fair value of related derivative financial instruments.

2.5 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 'Euro' (€), 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.

2.6 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income.

The Company uses derivatives financial instruments to hedge its exposure to currency translations arising from financing activities unless where repayment of a loan is not currently intended in the foreseeable future. The entity does not use hedge accounting.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.7 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 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.

2.8 Debtors

Amounts receivable are amounts due from group companies for 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.

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

IFRS 9 introduces a new impairment model, whereby recognition of an allowance for expected credit losses on financial assets is required, which deviates from the recognition of incurred credit losses under IAS 39. The new impairment model is applicable for debt instrument financial assets measured at amortized cost, for debt instrument financial assets measured at fair value through Other comprehensive income, for lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

The implementation of IFRS 9 has not led to a recognition of any additional impairment as at 1 January 2018.

2.9 Creditors

Amounts payable are amounts due to group companies for services that have been acquired in the ordinary course of business.

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

2.10 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.

2.11 Investments in subsidiaries and associated undertakings

Investments in subsidiaries, associates and joint ventures are held at cost less accumulated impairment losses. Investments are annually reviewed and considered for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.12 Fixed asset investments

Fixed asset investments consist of loans advanced to fellow group companies where repayment is not currently intended in the foreseeable future.

2.13 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.

2.14 Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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) 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. The company applies the IFRS 9 simplified impairment model that is based on forward looking expected credit losses, which is the present value of cash shortfalls over the expected life of financial assets. The simplified model does not track changes in credit risk. Instead, it requires recognition of lifetime expected credit loss.

(b) Impairment of non-financial assets

When assessing impairment of non-financial assets, management considers factors including the net asset value, nature of the entity, historical experience (such as political environment) and future cash flows. Future cash flows are estimated and inherently uncertain.

4 Auditors' remuneration

There is no charge for the remuneration of auditors' in the financial statements of the Company as the auditors' fee of £15,000 (2017: £15,000) in relation to the audit of this Company was borne by another group company and is not recharged.

Notes to the Financial Statements *(continued)*

5 Directors

Directors of a Company also provide qualifying services to other Group companies. Directors' time is not apportioned and their costs are not allocated between Group companies.

The remuneration of directors paid by the Company is as follows:

	2018	2017
	€000	€000
Aggregate directors' emoluments in respect of qualifying services	**222**	181
Amounts receivable under long term incentive schemes	**55**	17
Company contributions to money purchase pension schemes	**-**	25

The remuneration of directors paid by other Group companies and not recharged, for services to the Group as a whole including this Company, is as follows:

	2018	2017
	€000	€000
Aggregate directors' emoluments paid by other Group Companies	**533**	257
Amounts receivable under long term incentive schemes	**83**	-
Company contributions to money purchase pension schemes	**5**	-
Contributions to defined benefit schemes	**148**	56

The following includes all Directors:

	Number of employees	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1
The number of directors in respect of whose services, shares in the ultimate parent company were received or are receivable under long term incentive schemes	**2**	2

Post-employment benefits are accruing for two directors (2017: two) under a defined benefit scheme.

Highest paid director

The highest paid director's emoluments were as follows:

	2018	2017
	€000	€000
Total amount of emoluments and amounts (excluding shares) receivable under		
Long-term incentive schemes	**277**	198
Money purchase schemes	**-**	25

Notes to the Financial Statements *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2018	2017
By activity		
Corporate	**1**	3

The aggregate payroll costs of these persons were as follows:

	2018	2017
	€000	€000
Wages and salaries	**277**	579
Social security costs	**37**	51
Other pension costs	**-**	51
	314	681

7 Interest receivable and similar income

	2018	2017
	€m	€m
Interest receivable from group undertakings	**92**	104
Fair value gains on derivative financial instruments	**-**	9
	92	113

8 Interest payable and similar expenses

	2018	2017
	€m	€m
Interest payable to group undertakings	**(26)**	(34)
Fair value losses on derivative financial instruments	**(2)**	-
Net exchange losses	**(35)**	(46)
	(63)	(80)

The Company uses derivative financial instruments to hedge its exposure to currency translations arising from financing activities unless where repayment of a loan is not currently intended in the foreseeable future.

Notes to the Financial Statements *(continued)*

9 Tax on profit

Recognised in the statement of comprehensive income

Analysis of charge in year	**2018**	2017
	€m	€m
UK corporation tax		
Current tax charge for the year	**(8)**	(6)
Deferred tax		
Deferred tax movement for the year	**-**	-
Tax charge on profit before taxation	**(8)**	(6)

Reconciliation of standard tax rate

	2018	2017
	€m	€m
Profit before taxation	**13**	32
Tax using UK corporation tax rate 19.0% (2017: 19.25%)	**(2)**	(6)
Expenses not deductible for tax purposes – Loss on disposal of subsidiary shares	**(4)**	-
Non refundable withholding tax	**(2)**	-
Total tax expense	**(8)**	(6)

Factors that may affect future current and total tax charges

In the Summer 2015 Budget Statement this 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 have been substantively enacted at the balance sheet date.

As a result of these changes, the effective current tax rate applicable for 2017 was 19.25% and the rate applicable for 2018 was 19%. The rate applied to deferred tax balances is 17% as these balances are not expected to be utilised until after this rate takes effect.

In the Budget Statement on March 2020 the corporation rate tax was confirmed as 19% and the previously substantively enacted rate change to 17% from April 2020 was over written with this 19% tax rate. This change had not been substantively enacted as per these financial statements balance sheet date and has no impact on these financial statements.

Notes to the Financial Statements *(continued)*

10 Fixed Asset Investments

	Loans to group undertakings	Shares in group undertakings	Total
	€m	€m	€m
Cost			
At beginning of year	680	800	1,480
Additions	212	-	212
Reductions	(212)	(191)	(403)
Net exchange gains	12	-	12
At end of year	692	609	1,301
Provisions			
At beginning and end of year	-	-	-
Net book value			
As at 31 December 2018	**692**	**609**	**1,301**
At 31 December 2017	680	800	1,480

On 25 November 2015, the Company incorporated Akzo Nobel Finance (2) Limited (in the United Kingdom), a wholly owned subsidiary and subscribed for, and was issued 1 fully paid Ordinary Share of $1.00 equal to 100% of its share capital. On 7 January 2016, the Company subscribed for and was issued a further 863,583,000 ordinary shares of USD 1.00 in Akzo Nobel Finance (2) Limited for a consideration of $863,583,000 (€799,539,857.42). On the same date, the Company entered into an interest bearing loan arrangement with its wholly owned subsidiary to borrow $863,583,000 (€799,539,857.42).

On 3 January 2018, the Company received surplus assets in the amount of USD 206,254,257 (€171,229,303) generated by the reduction of share capital in its subsidiary, Akzo Nobel Finance (2) Limited. The transaction led to the Company recording a loss in value of €20m recorded in the Statement of Comprehensive income.

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership 2018	Ownership 2017
Akzo Nobel Finance (2) Limited	England and Wales	Ordinary	100%	100%

Subsidiary undertakings	Registered Office Address	Limited by shares or guarantee	Registration number	Public or private
Akzo Nobel Finance (2) Limited	The AkzoNobel Building, Wexham Road Slough United Kingdom SL2 5DS	Shares	9889324	Private

Notes to the Financial Statements *(continued)*

11 Debtors

	2018	2017
	€m	€m
Amounts owed by group undertakings	1,210	1,645
Derivative financial instruments	3	28
	1,213	1,673
Due within one year	443	179
Due after more than one year	770	1,494
	1,213	1,673

Amounts owed by group undertakings due within one year include intercompany loans totalling €379,259,402 (2017: €137,025,229) maturing during 2019. Average interest is fixed at 3.52% (2017: 4.16%).

Amounts owed by group undertakings due after more than one year include intercompany loans totalling €770,140,986 (2017: €1,493,884,950) maturing between 15 January 2020 and 12 December 2023. Average interest is fixed at 3.45% (2017: 2.65%)

Amounts owed to group undertakings include a balance of €52,130,375 (2017: €47,619,132) that is repayable on demand. Interest is accrued monthly based on 1 month LIBOR plus a spread of +15 basis points.

Remaining amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.
As a result of the decision by Akzo Nobel N.V. to separate its global businesses into two distinct and standalone groups: specialty chemicals and paints and coatings; the Company entered into an agreement to transfer its portfolio of loans with specialty chemicals companies to Akzo Nobel Chemicals Finance B.V. with effect from 1 January 2018, for a consideration of €519,028,913. The book value was €513,618,215 on the date of the transfer. The transfer generated a profit of €5m recorded in the Statement of Comprehensive income.

12 Creditors: amounts falling due within one year

	2018	2017
	€m	€m
Amounts owed to group undertakings	(623)	(225)
Derivative financial instruments	(3)	(8)
Group relief payable	(14)	(8)
	(640)	(241)

Amounts owed to group undertakings includes unpaid interest of €17,186,000 (2017: €21,053,291) on intercompany loans.

Equivalent consideration will be paid to fellow group companies to settle group relief balances.

Amounts owed to group undertakings includes intercompany loans totalling €606,118,850 which were settled as a post balance sheet event in 2019 (see note 13).

Remaining amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Financial Statements *(continued)*

13 Creditors: amounts falling due after more than one year

	2018	2017
	€m	€m
Amounts owed to group undertakings	(365)	(1,054)

Amounts owed to group undertakings includes intercompany loans totalling €365,000,000 (2017: €1,210,007,103) maturing on 24 May 2023. Average interest is fixed at 3.0% (2017: 2.68%).

On 21 December 2017, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel Finance (2) Limited confirming its intention to prepay a sum of USD 186,564,706 against the loan of USD 879,583,000 effective 1 January 2018.

On 14 February 2018, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €110,000,000 against the 2A Loan of €475,000,000.

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, AkzoNobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income. The outstanding loan balance between the parties following the release is zero. This full loan balance amount has been classified as creditors' amounts due within one year.

14 Derivative financial instruments

The company has financial assets and liabilities measured at fair value through profit or loss. These have been disclosed as derivative financial instruments in Debtors and Creditors: amounts falling due within one year, in notes 12 and 13 respectively.

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency receivables. At 31 December 2018, the outstanding contracts all mature within 12 months (2017: 12 months) of the year end. The Company is committed to buy or sell in 25 (2017: 23) foreign currencies for a fixed Euro amount.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable outputs. The key assumptions used in valuing the derivatives are the exchange rates for Euro to 25 foreign currencies.

15 *Called up share capital*

	2018	2017
	€m	€m
Authorised, allotted, issued and fully paid		
1,467,335 (2017: *1,621,335)* ordinary shares of €1 each	2	2

All share capital is classified as shareholders' funds. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 22 February 2018, the Company reduced its share capital by €154,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

Notes to the Financial Statements *(continued)*

16 Immediate and ultimate parent company

The immediate and ultimate parent company of the Company is Akzo Nobel N.V., a company incorporated in the Netherlands.

The only group in which the results of the Company are consolidated is that headed by the ultimate parent company, Akzo Nobel N.V..

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

17 Post Balance Sheet Event

During 2019 the Akzo Nobel Group undertook a review of its group financing activities. Following this review a decision was made to arrange for all intra-group funding to be undertaken from the Group's ultimate parent company, Akzo Nobel NV (Netherlands). As a result of this decision, the Board of Akzo Nobel Finance Limited approved the transfer of its loan book to its ultimate parent company, at market value, in three stages, the first stage taking place in 2019 and the second and third stages taking place, or expected to take place, in 2020. As a consequence of the divestment of the intra group loan book, the Company would have excess capital for which there was no immediate purpose. Accordingly, it was agreed to return share capital and share premium to the ultimate parent company, and to partially repay the intra group "2A" loan to the ultimate group parent company.

On 15 November 2019 the Company was repaid USD 122,618,162 from Akzo Nobel Inc. when the receivable loan was due.

On 11 December 2019, the Company was released from the full loan principal and accrued interest due to its immediate subsidiary, AkzoNobel Finance (2) Limited. The balance released was USD 693,018,294 with an accrued interest payable of USD 16,023,697. The total released was valued at €639,686,041 and was credited to the Company's Statement of Comprehensive Income. The outstanding loan balance between the parties following the release is zero.

On 11 December 2019 the Company's immediately owned subsidiary, Akzo Nobel Finance (2) Limited, reduced its share capital by reducing the nominal value of each Ordinary Share from USD 1.00 to USD 0.000000001521. Following the reduction, the issued share capital of the subsidiary was 657,328,744 Ordinary Shares with a total value of USD 1.00. The reduction in Share Capital was recorded as a credit to Other Distributable Reserves.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 500,000,000 plus accrued interest of USD 1,483,167 due from Akzo Nobel Inc to Akzo Nobel NV and received proceeds of USD 565,307,360. The loan had an expiry date of 30 November 2021.

On 11 December 2019 the Company novated an intercompany loan receivable of USD 380,000,000 plus accrued interest of USD 18,948,155 due from Akzo Nobel Inc to Akzo Nobel NV and received proceeds of USD 409,452,494. The loan had an expiry date of 28 December 2020.

On 11 December 2019 the Company reduced its share premium by €750,000,000 and the surplus assets were returned to its shareholder, Akzo Nobel N.V.

On 6 January 2020, the Company issued an Irrevocable Notice of Prepayment to Akzo Nobel N.V. confirming its intention to prepay €175,000,000 against the 2A Loan of €365,000,000

On 28 February 2020, the Company agreed to novate, via 14 separate deeds, intercompany loan receivables with book values at that date of €781,000,000. At that date the value of intercompany loan receivable balance was €917,000,000 The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel NV. The deeds were to be transacted before 31 December 2020 with the majority being transacted in March 2020.

On 27 May 2020, the Company agreed to novate, via 2 separate deeds, intercompany loan receivables with book values at that date of €68,000,000. The loans would be novated for fair market value plus accrued interest at the date of transfer to Akzo Nobel NV. The deeds were to be transacted before 31 December 2020.

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.

Notes to the Financial Statements *(continued)*

17 Post Balance Sheet Event (continued)

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, 2018 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Company.