

Imperial Chemical Industries Limited

Annual Report and Financial Statements

Registered number 218019

31 December 2016

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Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2016.

Principal activities

The principal activities of the Company are the sale and distribution of decorative paints, and the provision of toll manufacturing services related to the AkzoNobel decorative paints business. The Company is also an investment holding company and manages legacy matters relating to former businesses and assets which were owned by the Company when it operated as a public limited company.

Business review

The Company made a profit before taxation for the financial year of £181m (2015 restated: £104m) during the financial year and has net assets of £3,958m (2015 restated: £4,169m) as at 31 December 2016.

The Company's business is part of the AkzoNobel Decorative Paints European Business Unit of the group headed by Akzo Nobel N.V. Full information on the strategy of the Business Unit can be found in the Akzo Nobel Report 2016 and Accounts of the ultimate parent company Akzo Nobel N.V.. Copies may be obtained from Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

Post Balance Sheet Event

On 15 August 2017, the Company entered into a new loan agreement of £210,000,000 maturing on 15 August 2025. Interest is fixed at 2.06%. The new loan would be classified as creditor due after more than one year.

UK Paints Business

Overview

The ICI Paints business manufactures, distributes and sells directly a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself ("DIY") markets within the UK. The business operates under brands such as Dulux®, Dulux Trade®, Cuprinol®, Polycell®, Hammerite®, Armstead®, Sikkens® and International®. The Company prides itself on product innovation and continues to invest and bring new products to market.

Operational performance

In 2016, the UK domestic decorative coatings market remained flat with 2015, as increased construction output offset lower consumer spending driven by economic and political uncertainty following the result of the referendum to leave the European Union. As a result, the Company recorded an increase in UK revenue from sale of products. Total sale of products increased by £47m, and revenue from rendering of services decreased by £9m. Overall revenue increased by £38m and the Company recorded a past service gain of £30m (2015: £2m), as a credit to administrative expenses, on its post retirement defined benefit pension scheme which contributed to an increase in profit before tax excluding the effect of income from shares in group undertakings of £63m. Adjusted profit before tax return on sale percentage was 33% (2015 restated: 22%) largely driven by the past service gain and increased revenue. Income from shares in group undertakings was £14m higher than 2015 restated.

Strategic Report (*continued*)

Slough Manufacturing

In July 2011 the Company announced plans to build a world class, hi-tech manufacturing facility in the north-east of England, reinforcing its strategic commitment to accelerated and sustainable growth. The custom-built Decorative Paints site is designed to enable the Company to deliver the most efficient supply chain operations, reduce operating working capital and accelerate its response to changing market and customer demands. The new facility is in Ashington, Northumberland and was officially opened in September 2017.

The proposal includes the closure of the Company's manufacturing operation in Slough and the closure of an indirectly held subsidiary's operations in Prudhoe. Production at the two sites will be maintained at the required levels prior to the operations being transferred on a phased basis over Q4 2017. It is intended that Slough will remain the headquarters of the UK decorative paints business and for the wider global AkzoNobel Decorative paints research and development laboratories.

Key Performance Indicators

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

| Indicator | 2016 | 2015 (restated) | Delta |
|--------------------------------|------|-----------------|-------|
| Turnover from sale of product | £490 | £443m | £47m |
| Adjusted Profit before tax ROS | 33% | 22% | 11% |

The positive results show strong growth in revenue and also improved profitability which is largely driven by the focus on operational excellence and strategy execution. Turnover includes both third parties and intercompany sales. Adjusted profit before tax return on sale (ROS) is calculated as operating profit excluding income from shares in group undertakings as a percentage of turnover from sale of products.

Further information on the Company's decorative paints business can be found at www.dulux.co.uk

Sustainability

Sustainability remains a key driver to the Company and also a key pillar in the overall strategy of the AkzoNobel Group. All of the Company's manufacturing sites are certified to International Standard ISO 14001 and the Company continues to hold the Carbon Trust Standard.

The Company continued to comply with the UK Government's mandatory Carbon Reduction Commitment scheme, reporting lower CO2 emissions in the year 2016/15 compared to 2015/14.

Strategic Report (continued)

Principal Key Risks and Uncertainties

Economy

The main risks and uncertainties relating to the business are a downturn in the UK economy, specifically in relation to reduction in consumer investment in home decoration and commercial construction projects. This uncertainty is heightened by the recent Referendum by the UK which resulted in a vote to leave the European Union.

Post-retirement benefits

The Company is the principal employer of the ICI Pension Fund ("ICIPF") and the ICI Specialty Chemicals Pension Fund ("ISCPF"), two defined benefit pension schemes. Both are closed to new entrants. They are managed and controlled by independent trustees. The funded status of these schemes is affected by the trustees' investment decisions, market conditions, demographic experience and any regulatory actions. They both require additional funding (top up contributions) to address funding deficits determined in previous triennial funding valuations along with regular contributions at agreed rates. Changes in the funding deficits may adversely impact our business and results. AkzoNobel practices proactive pension risk management and continuously reviews options to reduce the financial risks associated with all defined benefit schemes. The trustees of both schemes have entered into further annuity buy-in agreements in line with their de-risking strategies which are supported by the Company and the AkzoNobel group. In 2016, ICIPF entered into five buy-ins and ISCPF entered into one buy-in, as detailed in note 23. The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to pension fund amounts equivalent to the benefits payable to a subset of current pensioners. The pension liabilities remain with pension fund and the matching annuity policies are held within the pension fund.

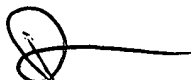
Financial Risk Management

Financial risk includes price risk, credit risk, liquidity risk and cash flow risk. These are addressed and managed at a group level as disclosed in the AkzoNobel Report 2016, pages 47 to 53 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.

On behalf of the board

D. Turner
Director



The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

13 December 2017

Directors' Report

The directors present their Directors' Report and the audited Financial Statements for the year ended 31 December 2016.

Change of Registered Office

On 1 October 2016, the Company changed its registered office address from 26th Floor, Portland House, Bressenden Place, London SW1E 5BG to The AkzoNobel Building, Wexham Road, Slough, United Kingdom, SL2 5DS.

Results

Refer to the Strategic Report for the results for the year ended 31 December 2016.

Dividends

The directors did not pay an interim dividend during the year (2015: £nil), nor do the directors recommend the payment of a final dividend (2015: £nil).

Going Concern

Akzo Nobel N.V., the Company's ultimate parent undertaking, has provided notification that it shall continue to provide financial and other support to the Company for a period of at least twelve months from the date of approval of these financial statements and thereafter for the foreseeable future to enable it to continue to trade. On this basis the directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future, and it is therefore appropriate to adopt the going concern basis in preparation of the financial statements.

Directors

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

| | |
|--------------|-----------------------------|
| B. Chapman | (appointed 31 March 2016) |
| B. Kaster | |
| M. Pullen | |
| D. Rivers | (resigned 31 December 2016) |
| M. Smalley | |
| R. Sparks | (resigned 3 February 2016) |
| D. Turner | (appointed 13 April 2017) |
| J. Henderson | (appointed 6 March 2017) |

Employees

The Company's policy is to consider all job applications by disabled persons sympathetically in relation to the duties, responsibilities and physical requirements of the vacancies, the aptitudes of the applicants, including the nature of the disability, the working environment and the facilities required for the effective performance of the job by the applicant. If any existing employee becomes disabled, the Company will examine any effects of the disability on current job performance and take all practicable steps to maintain the employees' continued employment through the provision of appropriate retraining, changes in working facilities or, with mutual agreement, the provision of alternative employment more closely related to the employees' capabilities. The Company will continue to identify and monitor the employment of Registered Disabled persons to determine its position in relation to the current statutory requirements.

Through the performance and development dialogue process the training needs and career development of all employees are identified and discussed.

Employee involvement

A departmental briefing and feedback process operates in all factories. Local senior management regularly meets with employee representatives and unions to discuss business issues, and employees represented at the AkzoNobel European Works Council. Through various media channels employees are regularly provided with information about the Company. Through the annual performance and development dialogue process each employee's individual objectives are aligned with the Company's overall goals.

Directors' Report (continued)

Political contributions

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

Financial Risk Management

Refer to the Strategic Report for details on financial risk management.

Future Developments

The directors are of the opinion that the Company is in a position to continue its principal activities during 2017.

Research and development

The Company carries out research and development in support of existing activities, specific new product development and the improvement of production processes.

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

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

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

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

Directors' Report (continued)

Independent auditors

On 3rd April 2017, KPMG LLP resigned as the Company's auditor, in line with the Group's planned rotation of audit firms. Pursuant to Section 485(3)(c) of the Companies Act 2006, PricewaterhouseCoopers LLP was appointed as the Company's auditor until the next period for appointing auditors.

On behalf of the Board



L. Carter
Secretary

The AkzoNobel Building
Wexham Road
Slough
United Kingdom
SL2 5DS

13 December 2017

Independent auditors' report to the members of Imperial Chemical Industries Limited

Report on the financial statements

Our opinion

In our opinion, Imperial Chemical Industries Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Miles Saunders (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
13 December 2017

Statement of Comprehensive Income
for the year ended 31 December 2016

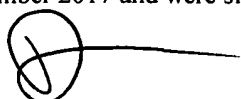
| | <i>Note</i> | 2016 £m | Restated 2015 £m |
|--|-------------|--------------------|---------------------------------|
| Turnover | 4 | 531 | 493 |
| Cost of sales | | (397) | (346) |
| Gross profit | | 134 | 147 |
| Distribution costs | | (93) | (92) |
| Administrative expenses | | (1) | (33) |
| Amounts written off investments | 13 | (3) | - |
| Other operating income | | 4 | 1 |
| Operating profit | 5 | 41 | 23 |
| Income from shares in group undertakings | 6 | 19 | 5 |
| Other interest receivable and similar income | 7 | 137 | 80 |
| Interest payable and similar expenses | 8 | (16) | (4) |
| Profit before taxation | | 181 | 104 |
| Tax on profit | 11 | (35) | (31) |
| Profit for the financial year | | 146 | 73 |
| Other comprehensive income/(loss) | | | |
| Items that will not be reclassified to the statement of comprehensive income | | | |
| Remeasurements of defined benefit liability/asset | 22 | (432) | (237) |
| Contribution to defined benefit funding deficit by non-sponsoring entities | 22 | - | 2 |
| Income tax on items that will not be reclassified to the statement of comprehensive income | 11 | 74 | 42 |
| Total comprehensive loss for the financial year | | (212) | (120) |

Balance sheet
at 31 December 2016

| | <i>Note</i> | 2016 £m | Restated 2015 £m |
|--|-------------|--------------------|---------------------------------|
| Fixed assets | | | |
| Tangible assets | 12 | 213 | 204 |
| Investments | 13 | 3,792 | 3,804 |
| Net defined benefit asset | 22 | 17 | 236 |
| | | <hr/> | <hr/> |
| | | 4,022 | 4,244 |
| Current assets | | | |
| Stocks | 14 | 1 | 2 |
| Debtors (including £3,085m due after one year (2015: £3,093m)) | 15 | 3,478 | 3,330 |
| Cash at bank and in hand | | 1 | 1 |
| | | <hr/> | <hr/> |
| | | 3,480 | 3,333 |
| Creditors: amounts falling due within one year | 16 | (3,511) | (3,340) |
| Provisions (current) | 18 | (8) | (1) |
| | | <hr/> | <hr/> |
| Net current (liabilities)/assets | | (39) | (8) |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 3,983 | 4,236 |
| | | <hr/> | <hr/> |
| Deferred tax liability | 17 | - | (40) |
| Provisions for liabilities | 18 | (25) | (26) |
| | | <hr/> | <hr/> |
| | | (25) | (66) |
| | | <hr/> | <hr/> |
| Net assets | | 3,958 | 4,170 |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Called up share capital | 19 | 1,209 | 1,209 |
| Share premium account | | 940 | 940 |
| Retained earnings | | 1,809 | 2,021 |
| | | <hr/> | <hr/> |
| Total shareholders' funds | | 3,958 | 4,170 |
| | | <hr/> | <hr/> |

The notes on pages 12 to 47 are an integral part of these financial statements.

These financial statements on pages 9 to 47 were authorised for issue by the board of directors on 13 December 2017 and were signed on its behalf by:



D. Turner
Director

Statement of changes in equity
for the year ended 31 December 2016

| | Called up share capital £m | Share Premium Account £m | Restated Retained earnings £m | Restated Total shareholders' funds £m |
|--|---|---|--|--|
| Balance at 1 January 2015 | 1,209 | 940 | 2,141 | 4,290 |
| Profit for the financial year | - | - | 73 | 73 |
| Other comprehensive income or loss | | | | |
| Remeasurements of defined benefit liability/asset | - | - | (237) | (237) |
| Contribution to defined benefit funding deficit by non-sponsoring entities | - | - | 2 | 2 |
| Income tax on items that will not be reclassified to the statement of comprehensive income | - | - | 42 | 42 |
| Total comprehensive loss for the year | - | - | (120) | (120) |
| Balance at 31 December 2015 | 1,209 | 940 | 2,021 | 4,170 |

| | Called up share Capital £m | Share Premium Account £m | Retained earnings £m | Total shareholders' funds £m |
|--|---|---|-------------------------------------|---|
| Balance at 1 January 2016 | 1,209 | 940 | 2,021 | 4,170 |
| Profit for the financial year | - | - | 146 | 146 |
| Other comprehensive income or loss | | | | |
| Remeasurements of defined benefit liability/asset | - | - | (432) | (432) |
| Income tax on items that will not be reclassified to the statement of comprehensive income | - | - | 74 | 74 |
| Total comprehensive loss for the year | - | - | (212) | (212) |
| Balance at 31 December 2016 | 1,209 | 940 | 1,809 | 3,958 |

Notes to the Financial Statements

1 General information

Imperial Chemicals Industries Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the UK. The Company registration number is 218019 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 pounds sterling. 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 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 into 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 Measurement convention

The financial statements are prepared on the historical cost basis, except for net defined benefit asset/liability, which is measured at fair value of plan assets less the present value of the defined benefit plan obligation, as explained in Note 2.19.

2.3 Going concern

Akzo Nobel N.V., the Company's ultimate parent undertaking, has provided written notification that it shall continue to provide financial and other support to the Company for a period of at least twelve months from the date of approval of these financial statements and thereafter for the foreseeable future to enable it to continue to trade. On this basis the directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future, and it is therefore appropriate to adopt the going concern basis in preparation of the financial statements.

2.4 New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the Company.

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 'Pounds Sterling' (£), which is also the Company's functional currency.

(b) Transactions and balances

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

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

2.6 Debtors

Amounts receivable are amounts due from group companies and amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

2.7 Creditors

Amounts payable are amounts due to group companies and obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.8 *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.

2.9 *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.

2.10 *Tangible fixed assets*

All tangible fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---------------------|----------|
| Buildings | 30 years |
| Plant and machinery | 13 years |

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

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

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

Accelerated depreciation has been provided to write off the cost of the Slough Manufacturing plant, over the period from 1 September 2011 to 31 December 2016, to its estimated residual value at the end of its current useful economic life or closure of the factory, whichever is earlier.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.11 Operating lease payments

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.12 Research and development expenditure

Expenditure on research and development is charged to the statement of comprehensive income in the year in which it is incurred.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. The weighted average cost method of valuation is used. In accordance with the contract manufacturing and distribution agreement effective from 1 October 2014, the economic risk associated with stocks used by the Company remains with AkzoNobel and as a result stocks have been excluded from the balance sheet. The inventories recorded on the balance sheet are spare parts for use in the manufacturing process, and in the execution of colour mixing.

2.14 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.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.15 Turnover

Sale of goods

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

Following the implementation of the Company's new business model on 1 October 2014 the Company will now only record third party and intercompany sales within the UK.

Rendering of services

Operating lease income is recognised in line with the benefit from the use of the underlying assets that are diminished.

The Company is involved in toll manufacturing services for which it earns a fixed return on production costs incurred.

2.16 Interest income

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

2.17 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18 Accounting for restatements

The Directors update the Financial Statements in line with IAS 8 where there is a material prior period error or where it is deemed that a voluntary change in accounting policies will result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. Refer to note 26 for further details of the restatements.

Notes to the Financial Statements *(continued)*

2 Accounting policies *(continued)*

2.19 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.

Defined benefit plans

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

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

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

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the statement of comprehensive income when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Company is the sponsoring employer of group wide defined benefit pension plans. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plans to participating entities, the net defined benefit cost of the pension plans is recognised fully by the sponsoring employer, which is the Company. The contributions payable in respect of active members by the participating entities are determined following each triennial valuation conducted by a qualified independent actuary, and charged as a percentage of salary costs. The Company recognises non sponsoring entity contributions in its statement of comprehensive income, as a net deduction against the defined benefit pension plan costs. If non sponsoring entity contributions exceed the current service cost, the excess of contributions over current service cost, are recorded in other comprehensive income.

As the Company has an unconditional right to any surplus of the scheme it recognises an asset as the amount of the surplus at the balance sheet that it has the right to receive as a refund. This is the fair value of the plan assets less the present value of the defined benefit obligation.

Notes to the Financial Statements *(continued)*

3 Critical accounting estimates and judgements

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

3.1 *Critical accounting estimates and assumptions*

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

(a) Useful economic lives of tangible fixed assets

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

(b) Impairment of debtors and recoverability

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

(c) Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

(d) 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.

(e) Provisions

Provisions are based on estimates of future events that the Company has provided for now. This includes items such as restructuring, future plans of operations and environmental provisions. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors.

(f) Post-retirement benefit provisions.

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. The benefits of these pension plans are based primarily on years of service and final pensionable pay.

(g) Property, Plant & Equipment.

When assessing costs to be recognised as property plant and equipment, management considers whether it is probable that future economic benefits associated with the asset will flow to the entity, and if the cost of the asset to the entity can be measured reliably.

3.2 *Critical judgements in applying the entity's accounting policies*

(a) Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the region. In the judgment of the directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for a defined contribution scheme.

Notes to the Financial Statements *(continued)*

4 Turnover

The majority of the Company's business operations are within one business segment, Decorative Paints and one geographic segment, the UK. Therefore, the profit and loss account reports the segmental information of the Company.

| | 2016 £m | Restated 2015 £m |
|-----------------------|------------|------------------------|
| Sale of goods | 490 | 443 |
| Rendering of services | 41 | 50 |
| | <u>531</u> | <u>493</u> |

Upon further review of toll manufacturing income during 2016, it was deemed that the 2015 amounts for Rendering of Services were understated by £8m. The 2015 disclosure has been restated to this effect.

5 Operating Profit

Operating profit is stated after charging:

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Wages and salaries | 41 | 45 |
| Social security costs | 7 | 6 |
| Other Pension costs | 18 | 15 |
| Restructuring costs | 3 | 1 |
| | <u>69</u> | <u>67</u> |
| | 2016 £m | 2015 £m |
| Past service (credit) / cost on defined benefit pension scheme | (30) | 2 |

In 2016, plan amendments to ICIPF and ISCPF pension schemes were implemented which resulted in a past service credit of £33m (2015: nil).

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Audit fees payable to the Company's auditors | 72 | 83 |

6 Income from shares in group undertakings

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Income from shares in group undertakings | 19 | 5 |

Notes to the Financial Statements *(continued)*

7 Other interest receivable and similar income

| | 2016 £m | Restated 2015 £m |
|---|------------|------------------------|
| Interest receivable from group undertakings | 123 | 66 |
| Net financing credit on post-employment benefit | 14 | 14 |
| | <u>137</u> | <u>80</u> |

Upon further review of interest capitalisation, it was deemed that the 2015 amounts were overstated and the 2015 disclosure has been restated to this effect.

8 Interest payable and similar expenses

| | 2016 £m | 2015 £m |
|--|-------------|------------|
| Interest payable to group undertakings | (3) | (1) |
| Net exchange losses | (13) | (3) |
| | <u>(16)</u> | <u>(4)</u> |

9 Directors and employees

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

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

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Aggregate Directors' emoluments paid by the Company | 502 | 408 |
| Amounts receivable under long term incentive schemes | 34 | 42 |
| Company contributions to money purchase pension schemes | 52 | 42 |

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

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Aggregate Directors' emoluments paid by other Group Companies | 190 | 435 |
| Amounts receivable under long term incentive schemes | 9 | 86 |
| Company contributions to money purchase pension schemes | 16 | 16 |
| Company contributions to defined benefit schemes | 9 | 92 |

Notes to the Financial Statements *(continued)*

9 Remuneration of directors *(continued)*

The following includes all Directors:

| | Number of directors 2016 | 2015 |
|---|-----------------------------|------|
| Retirement benefits are accruing to the following number of directors under: Money purchase schemes | 4 | 3 |
| The number of directors in respect of whose services, shares in the ultimate parent company were received or receivable under long term incentive schemes | 2 | 3 |

Post-employment benefits are accruing for one (2015: one) under a defined benefit scheme.

Highest paid director

The highest paid director's emoluments were as follows:

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes | 304 | 315 |
| Money purchase schemes | 29 | 28 |

10 Staff numbers

The average monthly number of persons employed by the Company (including executive directors) during the year was 916 (2015: 897), analysed as follows:

| | 2016 | 2015 |
|--------------------------|------|------|
| Production | 273 | 273 |
| Sales and distribution | 202 | 210 |
| Administration | 272 | 238 |
| Research and development | 169 | 176 |
| | 916 | 897 |

During the year restructuring related severance costs of £3m (2015: £1m) were recorded equally in administrative and distribution expenses.

Notes to the Financial Statements (continued)

11 Tax on profit

Recognised in the statement of comprehensive income

Analysis of charge/(credit) in year

| | 2016 £m | Restated 2015 £m |
|--|------------|------------------------|
| <i>UK corporation tax</i> | | |
| Current tax charge/(credit) for the year | 7 | (3) |
| Adjustments in respect of prior periods | (4) | - |
| | <u>3</u> | <u>(3)</u> |
| <i>Deferred tax</i> | | |
| Origination/reversal of timing differences | 39 | 32 |
| Reduction in tax rate | (8) | - |
| De recognition of deferred tax asset | 5 | 2 |
| Adjustments in respect of prior periods | (4) | - |
| | <u>32</u> | <u>34</u> |
| Total deferred tax | <u>32</u> | <u>34</u> |
| Tax charge/(credit) on profit | <u>35</u> | <u>31</u> |

Income tax recognised in other comprehensive income

| | 2016 £m | 2015 £m |
|---|-------------|-------------|
| Remeasurements of defined benefit asset | (86) | (42) |
| Movement in deferred tax relating to rate change | 12 | - |
| | <u>(74)</u> | <u>(42)</u> |
| Tax charge / (credit) on other comprehensive income | <u>(74)</u> | <u>(42)</u> |

Reconciliation of effective tax rate

| | 2016 £m | Restated 2015 £m |
|--|------------|------------------------|
| Profit before taxation | 181 | 104 |
| Tax using UK corporation tax rate 20% (2015: 20.25%) | 36 | 21 |
| Income not taxable – dividend income | (4) | (1) |
| Prior year adjustment | (8) | - |
| Pension spreading | - | (8) |
| Expenses not deductible for tax purposes – other disallowables | 2 | 2 |
| Tax losses not recognised | 5 | 2 |
| UK to UK transfer pricing adjustment | 12 | 13 |
| Withholding tax refund | - | 2 |
| Reduction in tax rate | (8) | - |
| | <u>35</u> | <u>31</u> |
| Total tax charge/(credit) | <u>35</u> | <u>31</u> |

The 2015 tax credit has been restated for the effect of other restatements affecting taxable profit, and the correction of deferred tax booked incorrectly to OCI. See note 26 for further details

Notes to the Financial Statements *(continued)*

11 Tax on profit *(continued)*

Franked Investment Income Litigation

The Company is a member of a group litigation in the UK, known as the Franked Investment Income Group Litigation Order ("GLO"), against HMRC. The GLO collects claims made by 25 corporate groups in the UK High Court seeking the repayment of advance corporation tax ("ACT") and tax on dividend income on the basis that its levy by the UK was contrary to EU law. The Company's claim covers the period 1975 to 1997 and both the Company's claim and the GLO commenced in 2003. A test case was selected from the members of the GLO to proceed to trial on a representative basis; this test case was not the Company's claim.

Following issuance of guidance in December 2006 by the European Court of Justice ("ECJ"), the UK High Court in November 2008 found in favour of the claimants on certain key aspects of the claim. The judgement concluded, inter alia, that dividends received from EU subsidiaries should be, and should always have been, effectively exempt from UK taxation. It also concluded that certain dividends received from EU subsidiaries before 5 April 1999 and, in some limited circumstances, after 1993 from outside the EU, should have been treated as franked investment income, with the consequence that ACT need not have been paid. The judgement was appealed by HMRC. Following this UK High Court judgement, the Company, along with other members of the GLO, applied for and received in August 2009 an interim payment of approximately £64m, made up of interest and reclaimed ACT.

The appeal was heard by the Court of Appeal in October 2009 and the judgement was given in February 2010 mainly in favour of HMRC, following which HMRC appealed against the payments of interim payment awards. Those appeals by HMRC were dismissed by the Court of Appeal in January 2012. The judgement restricted claims retrospectively to tax paid within 6 years of the issue of the claim and not cover claims dating back to 1973. The Company's claim however included sufficient payments of tax within that period which would still have been regarded as unlawful under the High Court's judgment. Accordingly, the Company retained the interim payment on the grounds that its claim could be restructured such that a similar interim payment would be due to the Company.

The issue of the six year time limit was heard by the UK Supreme Court in February 2012 and, in May 2012, decided in favour of the principal test claimant. Therefore claims submitted before 8 September 2003, (including the Company's) could extend back as far as 1973.

The Court of Appeal February 2010 judgement also determined that various questions should be referred back to the ECJ for further clarification, and this took place in February 2012. An ECJ judgement was made in November 2012 which confirmed that the UK treatment of EU dividends was discriminatory. The judgement includes third country dividends from 1994 in certain circumstances; it also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

The case then reverted to the UK High Court to apply the November 2012 ECJ judgement with the trial held in May and June 2014. The UK High Court issued its rulings in December 2014 generally in the favour of the test claimant, however the case was then immediately appealed to the Court of Appeal which was heard in June 2016. The judgment of the Court of Appeal, which was generally in favour of the test claimant, was delivered on 24 November 2016. HMRC are currently seeking permission to appeal this judgment. The final court ruling will be based upon the case of the test claimant. At this point, the Company's claim would need to be reviewed and tested by HMRC. The specific facts of the Company's claim may be different from the test claimant.

In November 2015 a separate claim issued by the Company in respect of Foreign Income Dividends was heard by the High Court. The judgment (which was favourable to the Company) was issued in January 2016 and HMRC made additional tax repayments of £8.7m less the new 45% restitution interest tax, resulting in a cash repayment of £4.8m. This income is reflected in these statutory accounts. An appeal has been issued to HMRC in respect of the restitution interest tax charge.

Given the continuing complexity of the case and the uncertainty over the issues raised, it is not possible to predict the final outcome of the litigation with a reasonable degree of certainty or to reliably quantify its impact. As a result, except as mentioned above, no further tax income can currently be recognised.

Notes to the Financial Statements *(continued)*

11 Tax on profit *(continued)*

Factors that may affect future current and total tax charges

In the Autumn 2012 Budget Statement a corporation tax rate change was announced reducing the rate from 23% to 21% effective 1 April 2014 and in the Budget of March 2013 this 21% rate was further reduced to 20% effective from 1 April 2015. These changes were substantively enacted on 2 July 2013 and therefore the effective current tax rate applicable during 2015 was 20.25% and the rate applicable during 2016 was 20%.

In the Summer 2015 Budget Statement a corporation tax rate change was announced reducing the rate from 20% to 19% effective 1 April 2017, with a further reduction to 18% effective 1 April 2020. Both of these changes were substantively enacted on 26 October 2015.

In the March 2016 Budget Statement a corporation tax rate change was announced reducing the rate from 18% to 17% effective 1 April 2020. This change was substantively enacted at the balance sheet date and is applied to any deferred tax balances of the Company.

12 Tangible assets

| | Land and buildings £m | Plant and machinery £m | Restated Payments on account and assets in course of construction £m | Total £m |
|---------------------------------|-----------------------------|------------------------------|--|-------------|
| Cost | | | | |
| At beginning of year (restated) | 17 | 246 | 169 | 432 |
| Additions | - | - | 19 | 19 |
| Other movements | 1 | (1) | (2) | (2) |
| Transfer of assets into use | - | 9 | (9) | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 18 | 254 | 177 | 449 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Accumulated Depreciation | | | | |
| At beginning of year | (13) | (215) | - | (228) |
| Charge for year | - | (8) | - | (8) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | (13) | (223) | - | (236) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31 December 2016 | 5 | 31 | 177 | 213 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2015 (restated) | 4 | 31 | 169 | 204 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Accelerated depreciation of £nil (2015: £2m) was provided in 2016 to write off the cost of the Slough manufacturing plant, over the period from 1 September 2011 to 31 December 2015, to its estimated residual value at the closure of the manufacturing plant.

~~Some fixed assets in land and buildings and plant and machinery within the toll manufacturing activities are accounted for as being leased.~~

Upon further review of interest capitalisation, it was deemed that the 2015 amounts were overstated in error by £12m and the 2015 disclosure has been restated to this effect. See note 26 for further details

Notes to the Financial Statements *(continued)*

12 Tangible assets *(continued)*

The net book value of land and buildings comprises:

| | 2016 £m | 2015 £m |
|----------|------------|------------|
| Freehold | 5 | 4 |

13 Investments

| | Shares £m | Participating Interests £m | Total £m |
|-----------------------|--------------|----------------------------------|-------------|
| Cost | | | |
| At beginning of year | 3,902 | 12 | 3,914 |
| Disposals | - | (12) | (12) |
| At end of year | 3,902 | - | 3,902 |
| Provisions | | | |
| At beginning of year | (110) | - | (110) |
| At end of year | (110) | - | (110) |
| Net book value | | | |
| At 31 December 2016 | 3,792 | - | 3,792 |
| At 31 December 2015 | 3,792 | 12 | 3,804 |

During the year, the Company's 49% owned joint venture I.C. Insurance Holdings Limited was liquidated. This carrying value of the investment was £12m and the proceeds received from liquidation was £9m. A loss of £3m has been recorded through statement of comprehensive income

Shares in directly held subsidiary undertakings which are listed investments have a balance sheet value of £28m (2015: £28m) and a market value at 31 December 2016 of £386m (2015: £329m).

The companies, in which the Company's interest at 31 December 2016 is more than 20%, are disclosed in note 24.

14 Stocks

| | 2016 £m | 2015 £m |
|-------------------------------------|------------|------------|
| Finished goods and goods for resale | 1 | 2 |

Value of stock expensed in the year £376,931,000 (2015: £327,568,000).

Notes to the Financial Statements *(continued)*

15 Debtors

| | 2016 £m | Restated 2015 £m |
|--|--------------|------------------------|
| Amounts owed by group undertakings: due in less than one year | 352 | 210 |
| Amounts owed by group undertakings: due in greater than one year | 3,085 | 3,085 |
| Trade debtors | 28 | 11 |
| Other debtors | 10 | 21 |
| Group Relief | - | 1 |
| Prepayments and accrued income | 3 | 2 |
| | <u>3,478</u> | <u>3,330</u> |
| Due within one year | 393 | 237 |
| Due after more than one year | 3,085 | 3,093 |
| | <u>3,478</u> | <u>3,330</u> |

Amounts owed by group undertakings due within one year include a balance of £29,959,546 (2015: £30,776,000) that is repayable on demand. Interest is charged monthly based on 1 month LIBOR plus a spread of -10 basis points.

Amounts owed by group undertakings due after more than one year include intercompany loans of £3,085,500,000 (2015: £3,085,500,000). Maturing between 30 September 2024 and 15 August 2025. Average interest is fixed at 3.97% (2015: 3.97%).

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

Upon further review of toll manufacturing services, it was deemed that the 2015 amount was understated by £8m and the 2015 disclosure of amounts owed by group undertakings due in less than one year has been restated to this effect.

In addition, a review of income recognition noted that Debtors were understated by £9m arising from the accounting for transactions with another group company which is deemed to be an agent of the Company. This has now been corrected in 2015 and restated.

16 Creditors: amounts falling due within one year

| | 2016 £m | 2015 £m |
|------------------------------------|--------------|--------------|
| Trade creditors | 29 | 49 |
| Amounts owed to group undertakings | 3,438 | 3,204 |
| Other creditors | 38 | 87 |
| Group relief | 6 | - |
| | <u>3,511</u> | <u>3,340</u> |

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

Group relief will be paid to fellow group companies for equivalent consideration.

On 15 August 2017, the Company entered into a new loan agreement of £210,000,000 maturing on 15 August 2025. Interest is fixed at 2.06%. The new loan would be classified as creditor due after more than one year.

Notes to the Financial Statements (continued)

17 Deferred tax liability

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

| | 2016 £m | 2015 £m |
|-------------------|------------|------------|
| Employee benefits | - | (40) |

Movement in deferred tax during the year

| | 1 January 2016 £m | Recognised in Income £m | Recognised in OCI £m | 31 December 2016 £m |
|-------------------|-------------------------|-------------------------------|----------------------------|---------------------------|
| Employee benefits | 40 | 32 | (72) | - |

Movement in deferred tax during the prior year

| | 1 January 2015 £m | Restated Recognised in Income £m | Restated Recognised in OCI £m | 31 December 2015 £m |
|-------------------|-------------------------|---|--|---------------------------|
| Employee benefits | 46 | 35 | (41) | 40 |

Deferred tax assets are only recognised on losses to the extent that future probable taxable profits will be available against which the deferred tax asset can be utilised. Based upon future profit forecasts of the Company, gross cumulative tax losses of £651,165,000 (2015 restated: £613,018,000) was unrecognised. Upon further review of deferred tax assets, cumulative tax losses for 2015 have been restated to reflect gross losses.

| | 2016 £m | Restated 2015 £m |
|--|------------|------------------------|
| Losses carried forward | 454 | 454 |
| Fixed assets | 180 | 148 |
| Restructuring provisions/business provisions/other | 17 | 11 |
| | 651 | 613 |
| Equivalent Deferred Tax Asset value | 111 | 110 |

The Company also has significant unrecognised capital losses which can only be utilised for certain capital transactions. Any future taxable capital gain, should it fulfil the applicable tax criteria, will be covered by these losses.

Notes to the Financial Statements *(continued)*

18 Provisions for liabilities

| | Post retirement and benefit provisions £m | Restructuring provisions £m | Environmental provisions £m | Other provisions £m | Total £m |
|-----------------------------------|--|--------------------------------|--------------------------------|------------------------|-------------|
| At beginning of year | 14 | 12 | - | 1 | 27 |
| Statement of comprehensive income | 2 | 3 | 7 | - | 12 |
| Utilised during year | (1) | (5) | - | - | (6) |
| At end of year | 15 | 10 | 7 | 1 | 33 |
| Current | 1 | 6 | - | 1 | 8 |
| Non-current | 14 | 4 | 7 | - | 25 |
| | 15 | 10 | 7 | 1 | 33 |

Post retirement and benefit provisions

Provisions relate to the defined benefit obligations related to unfunded pension plans. Refer to note 22.

Restructuring provisions

The Company provided £3m (2015: £1m) in relation to employee costs associated with restructuring activities during the year within the Decorative paints business. It is expected the majority of this provision will be used in 2017.

Environmental provisions

Provision to restore manufacturing sites back to original state and are expected to be used up to 2027.

Other Provisions

These include provisions for surplus real estate leases plus other operational liabilities and are expected to be used during 2017.

Notes to the Financial Statements *(continued)*

19 Called up share capital

| | 2016 £m | 2015 £m |
|--|------------|------------|
| <i>Authorised, allotted, called up and fully paid</i> | | |
| 1,209,327,168 (2015: 1,209,327,168) ordinary shares of £1 each | 1,209 | 1,209 |

All share capital is classified as shareholders' funds. There has been no movement in the number of shares in the current period. 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.

20 Bank facilities

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

All parties to the arrangement are jointly and severally liable to the bank for any overdraft thereon. At 31 December 2016 the overall cash pool balance was £nil credit (2015: £1,076,000 credit).

Included within amounts owed by group undertakings is £nil (2015: £0.6m owed by) in respect of the Company's share of the account.

21 Commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

| | 2016 £m | 2015 £m |
|-------------------------------|------------|------------|
| Authorised and contracted for | 5 | 38 |

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions

Post-retirement benefit provisions relate to defined benefit pension and other post-retirement benefits, comprising healthcare plans. There are a number of defined benefit pension plans included, some funded and some unfunded. The largest pension plans are the two funded plans – the ICI Pension Fund (“ICIPF”) and the ICI Specialty Chemicals Pension Plan (“ISCPF”) which account for 94.0 percent and 5.8 percent of total defined benefit obligations (DBO) respectively and 100 percent of plan assets of the Company. The benefits of these pension plans are based primarily on years of service and final pensionable pay. The funding policy for the plans is consistent with local requirements in the United Kingdom.

Valuations of the obligations under the plans are carried out regularly by independent qualified actuaries. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees. Governance of the benefit plans is the responsibility of AkzoNobel’s ExCo Pensions Committee. This committee provides oversight of the costs and risks of the plans including oversight of the impact of the plans on the company in terms of cash flow, pension expenses and the balance sheet, by the development and maintenance of policies on benefit design, funding, asset allocation and assumption setting.

Pension plans

The ICIPF and ISCPF plans were both closed to new members in 2001, although long-serving employees continue to accrue benefits. Other employees are eligible to join a defined contribution arrangement named the Akzo Nobel Benefit Builder Scheme. Unless mandated by law, it is AkzoNobel’s policy that any new plans are established as defined contribution plans.

The most significant risks that we run in relation to defined benefit plans are that investment returns fall short of expectations, discount rates fall to low levels, that inflation exceeds expectations, and that retirees live longer than expected.

The assets and liabilities of each of the funded plans are held outside of the company in a trust or a foundation, which is governed by a board of fiduciaries or trustees. The ICIPF uses a corporate trustee, called ICI Pensions Trustee Limited, a company which is owned by The Law Debenture Trust Corporation PLC and the ISCPF uses a corporate trustee, called ICI Specialty Chemicals Pensions Trustee Limited, a company which is owned by The Law Debenture Pension Trust Corporation PLC. Both are professional trustee companies which are entirely independent from the Company and its parent. The primary objective with regard to the investment of pension plan assets is to ensure that each individual plan has sufficient funds available to satisfy future benefit obligations in accordance with local legal and legislative requirements. For this purpose, AkzoNobel works closely with plan trustees or fiduciaries to develop strategic asset allocation strategies. Asset liability modeling (ALM) studies are carried out periodically to analyze and understand the trade-off between expected investment returns, volatility of outcomes and the impact on cash contributions. The aim is to strike a cautious balance between these factors in order to agree affordable contribution schedules with plan fiduciaries. Plan assets principally consist of long-term interest-earning investments, insurance policies and (investment funds with holdings primarily in) quoted equity securities and use derivatives (such as index futures, currency forward contracts and swaps) to reduce volatility of underlying variables, for efficient portfolio management and to improve the liability matching characteristics of the assets. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund’s investment strategy. Both ICIPF and ISCPF have invested in buy-in annuity contracts that aim to hedge all key risks related to a certain part of the pensioner population.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Pension plans *(continued)*

In line with AkzoNobel's proactive pension risk management strategy, it seeks to reduce risk in its pension plans over time. Potential de-risking strategies and opportunities continue to be evaluated on an ongoing basis. Some future de-risking transactions may have both cash flow and balance sheet impacts which may be substantial, as have some of the de-risking actions already taken. The cost of fully removing risk would exceed estimated funding deficits. In 2016, the Trustee of ICIPF entered into five more annuity buy-in agreements. Three of the agreements are with Legal & General Assurance Society Limited and the other two are with Scottish Widows Limited and they cover, in aggregate, £2.7 billion of pensioner liabilities (local plan value). The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to ICIPF amounts equivalent to the benefits payable to a subset of current pensioners. The pension liabilities remain with ICIPF and the matching annuity policies are held within ICIPF. The accounting impact of the transactions is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £512 million. In 2016, the Trustee of ISCPF transacted one more buy-in in November 2016 with Pension Insurance Corporation covering their remaining pensioner liabilities, totalling £138 million (local plan value), the accounting impact of which is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £21 million. By purchasing these bulk annuities, the Trustees have both taken significant steps in actively de-risking liabilities and reducing the risk that AkzoNobel will be required to contribute additional cash in the future. In 2016, plan amendments to ICIPF and ISCPF were implemented which resulted in a total past service credit of £33 million.

The remaining pension plans comprise a number of unfunded pension schemes and the defined contribution arrangement named the Akzo Nobel Benefit Builder Scheme which provides benefits based on contributions made. The expenses of defined contribution plans in the Company equal to the company contributions paid totalled £5 million in 2016 (2015: £3 million).

Other post-retirement benefit plans

The Company provides unfunded healthcare benefits for eligible, retired employees from retirement date until the age of sixty five through a scheme operated by a healthcare insurer for the Company's employees in the UK. During 2016, 162 retired employees were beneficiaries of the scheme (2015: 217). The plan exposes the Company to the risk of a further decline in discount rates, which would increase the plan obligations.

Notes to the Financial Statements (continued)

22 Post-retirement benefit provisions (continued)

Reconciliation balance sheet

| | 2016 | | | 2015 | | |
|---|----------------|--------------|--------------|----------------|--------------|--------------|
| | £m | £m | £m | £m | £m | £m |
| | DBO | Plan assets | Total | DBO | Plan assets | Total |
| Balance at the beginning of the year | (8,221) | 8,443 | 222 | (8,757) | 9,015 | 258 |
| Statement of comprehensive income | | | | | | |
| Current service cost | (9) | - | (9) | (9) | - | (9) |
| Past service cost | 30 | - | 30 | (2) | - | (2) |
| Non Sponsoring entity contributions | - | 2 | 2 | - | 2 | 2 |
| Net interest (charge)/income on net defined benefit (liability)/asset | (285) | 299 | 14 | (291) | 305 | 14 |
| Income recognised in statement of comprehensive income | (264) | 301 | 37 | (302) | 307 | 5 |
| Remeasurements | | | | | | |
| Actuarial gain due to liability experience | 75 | - | 75 | 205 | - | 205 |
| Actuarial (loss)/(gain) due to liability financial assumption changes | (1,521) | - | (1,521) | 170 | - | 170 |
| Actuarial (loss) due to liability demographic assumption changes | - | - | - | (79) | - | (79) |
| Actuarial loss due to buy-ins | - | (533) | (533) | - | (277) | (277) |
| Return on plan assets greater/(less) than discount rate | - | 1,555 | 1,555 | - | (255) | (255) |
| Remeasurement effects recognised in other comprehensive income | (1,446) | 1,022 | (424) | 296 | (532) | (236) |
| Cash flow | | | | | | |
| Employer contributions | - | 169 | 169 | - | 197 | 197 |
| Non Sponsoring entity contributions | - | (2) | (2) | - | (2) | (2) |
| Benefits and administration costs paid from plan assets | 535 | (535) | - | 542 | (542) | - |
| Net cash flow | 535 | (368) | 167 | 542 | (347) | 195 |
| Balance at the end of the year | (9,396) | 9,398 | 2 | (8,221) | 8,443 | 222 |

| | 2016 | 2015 |
|------------------------------------|----------|------------|
| | £m | £m |
| In the balance sheet under | | |
| Other financial non-current assets | 17 | 236 |
| Post-retirement benefit provisions | (14) | (13) |
| Current portion of provisions | (1) | (1) |
| Net balance sheet provision | 2 | 222 |

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

The expenses of the funds are borne directly by the Company. Administration expenses are expensed as incurred and charged to Operating income. Administration expenses in 2016 totaled £7 million (2015: £8 million). In addition, directly incurred asset management expenses of £8 million (2015: £4 million) have been included in Other comprehensive income.

DBO at funded and unfunded pension plans

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| | £m | £m |
| Wholly or partly funded plans | 9,381 | 8,207 |
| Unfunded plans | 15 | 14 |
| Total | 9,396 | 8,221 |

Interest costs on DBO for both pensions and other post-retirement benefits together with the interest income on plan assets comprise the net financing income related to post-retirement benefits of £14 million (2015: £14 million), see Note 7.

Plan assets

| | 2016 | | 2015 | |
|--|--------------|---------------------|--------------|---------------------|
| | £m | Percentage of total | £m | Percentage of total |
| Equities | - | - | 28 | - |
| Debt – fixed interest government bonds | 92 | 1 | 308 | 4 |
| Debt – index-linked government bonds | 628 | 7 | 2,274 | 27 |
| Debt – corporate and other bonds | - | - | 34 | - |
| Insurance contracts | 7,154 | 76 | 4,451 | 53 |
| Cash and cash equivalents | 452 | 5 | 162 | 2 |
| Other | 1,072 | 11 | 1,186 | 14 |
| Total | 9,398 | 100 | 8,443 | 100 |

The equities and government bond debt assets in the table above have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. The other categories of plan assets include certain assets that are not quoted in active markets. Such unquoted securities, totaling £63 million (2015: £54 million), have increased due to changed investment allocations by the trustees. Unquoted plan assets include investments in infrastructure. Plan assets did not directly include any of AkzoNobel's own transferable financial instruments, nor any property occupied by or assets used by the company.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Plan assets *(continued)*

Pension balances recorded under net defined benefit asset totaled £17 million (2015: £236 million). These assets could be recognized under IFRIC 14 because economic benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

Cash flows

In 2017, we expect to contribute £168 million to our defined benefit pension plans. This includes £12 million of regular pension contributions and £156 million for top-ups. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities.

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

Future benefit payments

| | Pensions | Other post-retirement benefits |
|-----------|----------|--------------------------------|
| | £m | £m |
| 2017 | 535 | - |
| 2018 | 536 | - |
| 2019 | 537 | - |
| 2020 | 539 | - |
| 2021 | 540 | - |
| 2022-2026 | 2,724 | 1 |

Notes to the Financial Statements (continued)

22 Post-retirement benefit provisions (continued)

Key figures and assumptions by plan

2016

| | ICIPF UK £m | ISCPF UK £m | Other pension plans £m | Other post- retirement benefits £m | Total £m |
|---|-------------------|-------------------|---------------------------------|--|-------------|
| Percentage of total DBO | 94% | 6% | - | - | - |
| Defined Benefit Obligation | (8,832) | (549) | (13) | (2) | (9,396) |
| Fair value of plan assets | 8,832 | 566 | - | - | 9,398 |
| Plan funded status | - | 17 | (13) | (2) | 2 |
| Amounts recognised on the balance sheet | - | 17 | (13) | (2) | 2 |
| Percentage of total current service cost | 86% | 14% | - | - | 100% |
| Current service cost | 7 | 2 | - | - | 9 |
| Employer contributions | 161 | 7 | 1 | - | 169 |
| Discount rate | 2.5% | 2.6% | 2.1% | 2.1% | 2.5% |
| Rate of compensation increase | 1.4% | 1.4% | - | - | 1.4% |
| Inflation | 3.3% | 3.3% | 3.0% | - | 3.3% |
| Pension increases | 3.0% | 3.0% | 2.8% | - | 3.0% |
| Healthcare cost trend rate for next year | - | - | - | 6.1% | 6.1% |
| Rate to which cost trend rate is assumed to decline | - | - | - | 6.1% | 6.1% |
| Year that rate reaches the ultimate trend | - | - | - | 2016 | 2016 |
| Life expectancy (in years) | | | | | |
| Currently aged 60 | | | | | |
| Males | 27.1 | 27.6 | 26.8 | - | 27.1 |
| Females | 29.6 | 29.2 | 29.3 | - | 29.6 |
| Currently aged 45, from age 60 | | | | | |
| Males | 28.4 | 29.0 | 28.0 | - | 28.4 |
| Females | 31.1 | 30.7 | 30.5 | - | 31.1 |

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Key figures and assumptions by plan *(continued)*

2015

| | ICIPF UK £m | ISCPF UK £m | Other pension plans £m | Other post- retirement benefits £m | Total £m |
|---|-------------------|-------------------|---------------------------------|--|-------------|
| Percentage of total DBO | 95% | 5% | - | - | |
| Defined Benefit Obligation | (7,765) | (442) | (12) | (2) | (8,221) |
| Fair value of plan assets | 7,970 | 473 | - | - | 8,443 |
| Plan funded status | 205 | 31 | (12) | (2) | 222 |
| Amounts recognised on the balance sheet | 205 | 31 | (12) | (2) | 222 |
| Percentage of total current service cost | 82% | 18% | - | - | 100% |
| Current service cost | 8 | 1 | - | - | 9 |
| Employer contributions | 188 | 8 | 1 | - | 197 |
| Discount rate | 3.6% | 3.8% | 3.5% | 3.5% | 3.6% |
| Rate of compensation increase | 3.9% | 4.1% | - | - | 3.9% |
| Inflation | 2.9% | 3.1% | 2.9% | - | 2.9% |
| Pension increases | 2.8% | 2.9% | 2.8% | - | 2.8% |
| Healthcare cost trend rate for next year | - | - | - | 6.0% | 6.0% |
| Rate to which cost trend rate is assumed to decline | - | - | - | 6.0% | 6.0% |
| Year that rate reaches the ultimate trend | - | - | - | 2016 | 2016 |
| Life expectancy (in years) | | | | | |
| Currently aged 60 | | | | | |
| Males | 27 | 27.5 | 26.8 | 26.8 | 27 |
| Females | 29.5 | 29.1 | 29.3 | 29 | 29.5 |
| Currently aged 45, from age 60 | | | | | |
| Males | 28.3 | 28.9 | 28 | 27.9 | 28.3 |
| Females | 31 | 30.6 | 30.5 | 30.3 | 31 |

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Sensitivity of DBO to change in assumptions

| | ICIPF UK £m | ISCPF UK £m | Other pension plans £m | Other post- retirement benefits £m | Total £m |
|--|-------------------|-------------------|---------------------------------|--|-------------|
| Discount rate: 0.5% decrease | 634 | 56 | 1 | - | 691 |
| Price inflation: 0.5% increase [^] | 368 | 31 | 1 | - | 400 |
| Life expectancy: one year increase from age 60 | 407 | 19 | - | - | 426 |

Maturity information

| | | | | | |
|--|------|------|------|-----|------|
| Weighted average duration of DBO (years) | 13.6 | 19.2 | 13.6 | 7.5 | 13.9 |
|--|------|------|------|-----|------|

[^] The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO; in particular the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for each plan. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent our view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-retirement defined benefit plans are not reflected in this analysis, as they would normally be reflected in plan asset changes rather than DBO changes.

The sensitivities in the table only apply to the DBO and not to the net amounts recognized in the balance sheet. Movements in the fair value of plan assets (which include the de-risking instruments) would, to a significant extent, be expected to offset movements in the DBO resulting from changes in the given assumptions. The annuity buy-in contracts cover approximately 96 percent of pensioner liabilities and 76 percent of total liabilities at ICIPF and 100 percent of pensioner liabilities and 61 percent of total liabilities at ISCPF.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Key plan details of the largest two pension plans

| | |
|---|---|
| | ICI Pension Fund, UK |
| Type of plan | Defined benefit, based upon years of service and final salary |
| Benefits | Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement |
| Pension increases (main benefit section) | Annually linked to UK RPI with a maximum of 5 percent |
| Plan structure | Plans are set up under a trust and are tax approved |
| Governance | Trustee directors: Five member-nominated trustees Five appointed with the agreement of Law Debenture One independent (Law Debenture) |
| Regulatory framework | The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company |
| Funding basis | A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities |
| Frequency of funding reviews | Every three years |
| Latest valuation | March 31, 2014 |
| Funding deficit ^{^^} at latest valuation | £850 million |
| Recovery plan | £150 million per annum in 2017 and £125 million per annum in 2018 to 2021, paid in January each year |
| Next funding review | March 31, 2017 with recovery plan to be agreed by June 30, 2018 |
| Estimated funding deficit ^{^^} at March 31, 2016 | £661 million |
| Asset allocation at March 31, 2016 | |
| Matching: | 90% |
| Return seeking: | 10% |
| Matching: | Buy-in annuity contracts cover approximately 96% of pensioner liabilities and 76% of total liabilities |
| Membership at March 31, 2016 | |
| Active | 308 |
| Deferred | 8,699 |
| Pensioner | 44,821 |
| Total | 53,828 |

^{^^} Based on local valuation regulations.

Notes to the Financial Statements *(continued)*

22 Post-retirement benefit provisions *(continued)*

Key plan details of the largest two pension plans

| | |
|---|---|
| | ICI Specialty Chemicals Pension Fund, UK |
| Type of plan | Defined benefit, based upon years of service and final salary |
| Benefits | Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement |
| Pension increases (main benefit section) | Annually linked to UK RPI with a maximum of 5 percent |
| Plan structure | Plans are set up under a trust and are tax approved |
| Governance | Trustee directors: Three member-nominated trustees Four appointed with the agreement of Law Debenture One independent (Law Debenture) |
| Regulatory framework | The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company |
| Funding basis | A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities |
| Frequency of funding reviews | Every three years |
| Latest valuation | March 31, 2014 |
| Funding deficit ^{^^} at latest valuation | £44.5 million |
| Recovery plan | £6 million per annum from 2017 to 2020, paid in March each year |
| Next funding review | March 31, 2017 with recovery plan to be agreed by June 30, 2018 |
| Estimated funding deficit ^{^^} at March 31, 2016 | £26.2 million |
| Asset allocation at March 31, 2016 | |
| Matching: | 75% |
| Return seeking: | 25% |
| Matching: | Buy-in annuity contracts cover approximately 100% of pensioner liabilities and 61% of total liabilities |
| Membership at March 31, 2016 | |
| Active | 43 |
| Deferred | 941 |
| Pensioner | 852 |
| Total | 1,836 |

^{^^} Based on local valuation regulations.

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings

The companies, in which the Company's interest at 31 December 2016 is more than 20%, are as follows;

| Subsidiary undertakings | Country of Incorporation | Class of shares held | Ownership | |
|---|--------------------------|----------------------|-----------|--------|
| | | | 2016 | 2015 |
| Akzo Nobel India Limited** | India | Equity | 49.24% | 49.24% |
| Akzo Nobel (NASH) Limited* | England and Wales | Ordinary | 100% | 100% |
| Akzo Nobel (NSC) Limited* | England and Wales | Ordinary | 100% | 100% |
| Akzo Nobel Packaging Coatings Limited* | England and Wales | Ordinary | 100% | 100% |
| Akzo Nobel Paints (Asia Pacific) Pte Ltd* | Singapore | Ordinary | 100% | 100% |
| Akzo Nobel Paints Lanka (PVT) Limited** | Sri Lanka | Ordinary | 50.6% | 50.6% |
| Akzo Nobel Paints (Malaysia) Sdn. Bhd.* | Malaysia | Ordinary | 59.95% | 59.95% |
| Akzo Nobel Paints Vietnam Ltd* | Vietnam | Ordinary | 100% | 100% |
| Cuprinol Limited * | England and Wales | Ordinary | 100% | 100% |
| Dulux Botswana (Pty) limited* | Botswana | Class A | 100% | 100% |
| | | Class B | 100% | 100% |
| Dulux Limited | England and Wales | Ordinary | 100% | 100% |
| Dulux Namibia (Pty) Limited* | Namibia | Ordinary | 100% | 100% |
| Dulux Swaziland (Pty) Limited* | Swaziland | Capital | 100% | 100% |
| Dulux Zambia (2005) Limited* | Zambia | Ordinary | 99% | 99% |
| Ergon Investments International Limited* | England and Wales | Ordinary | 100% | 100% |
| Ergon Investments UK Limited | England and Wales | Ordinary | 100% | 100% |
| Hammerite Products Limited* | England and Wales | Ordinary | 100% | 100% |
| Horseferry Investments Limited | England and Wales | Ordinary | 100% | 100% |
| ICHEM Reinsurance Company Limited | Cayman Islands | Ordinary | 100% | 100% |
| ICI Chemicals & Polymers Limited* | England and Wales | Ordinary | 100% | 100% |
| ICI Fertilisers (Ireland) Limited | Ireland | Ordinary | 99.9% | 99.9% |
| ICI Finance Limited | England and Wales | Ordinary | 100% | 100% |
| | | Preference | 100% | 100% |
| ICI India Research and Technology Centre* | India | Voting Only | 25% | 25% |
| ICI Insurance Company Limited | Cayman Islands | Ordinary | 100% | 100% |
| ICI International Investments Limited | Cayman Islands | Ordinary | 100% | 100% |
| ICI International Limited | England and Wales | Ordinary | 100% | 100% |
| ICI Ireland Limited* | Ireland | Ordinary | 100% | 100% |
| ICI Kern** | Venezuela | Ordinary | 55% | 55% |
| ICI Limited | England and Wales | Ordinary | 100% | 100% |
| ICI North America Limited | England and Wales | Ordinary | 100% | 100% |
| I.C. Insurance Holdings Limited | England and Wales | Ordinary | 49% | 49% |
| ICI Paints (Trade Contract) Limited* | England and Wales | Ordinary | 100% | 100% |

Notes to the Financial Statements (continued)

23 Investment in related undertakings (continued)

| Subsidiary undertakings | Country of Incorporation | Class of shares held | Ownership | |
|---|--------------------------|----------------------|-----------|--------|
| | | | 2016 | 2015 |
| ICI Theta BV* | Netherlands | Ordinary | 100% | 100% |
| Intex Yarns (Manufacturing) Limited* | England and Wales | Ordinary | 100% | 100% |
| J.P. McDougall & Co. Limited* | England and Wales | Ordinary | 100% | 100% |
| Metlac S.p.A.* | Italy | Ordinary | 44.44% | 44.44% |
| Mortar Investments International Limited | England and Wales | Ordinary | 100% | 100% |
| Mortar Investments UK Limited | England and Wales | Ordinary | 99.9% | 99.9% |
| Pinturas Coral De Bolivia Ltda* | Bolivia | Ordinary | 99% | 99% |
| Polycell Products Limited* | England and Wales | Ordinary | 100% | 100% |
| Quest International (Dublin) Limited* | Ireland | Ordinary | 100% | 100% |
| Sales Support Group Limited* | England and Wales | Ordinary | 100% | 100% |
| Scottish Agricultural Industries Limited* | England and Wales | Ordinary | 100% | 100% |
| Stevenston Holdings Limited | England and Wales | Ordinary | 100% | 100% |

| Subsidiary undertakings | Registered Office Address | Limited shares guarantee | by Registration or number | Public or private |
|---|---|--------------------------|---------------------------|-------------------|
| Akzo Nobel India Limited** | Geetanjali Apartment, 8 B, Middleton Street Kolkata 700 071 India | Shares | L24292WB19 54PLC021516 | Public |
| Akzo Nobel (NASH) Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 1000836 | Private |
| Akzo Nobel (NSC) Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 226707 | Private |
| Akzo Nobel Packaging Coatings Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 59837 | Private |
| Akzo Nobel Paints (Asia Pacific) Pte Ltd* | AkzoNobel House, 3 Changi Business Park Vista #05-01, 486051 Singapore | Shares | 199506268M | Private |
| Akzo Nobel Paints Lanka (PVT) Limited* | CIC House, 199 Kew Road Colombo 2 Sri Lanka | Shares | PV 4610 | Private |
| Akzo Nobel Paints (Malaysia) Sdn. Bhd.* | Lot 5827, Kawasan Perindustrian Nilai Nilai 71800 Malaysia | Shares | 3393-V | Private |

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

| Subsidiary undertakings | Registered Office Address | Limited by shares or guarantee | Registration number | Public or private |
|--|--|--------------------------------|---------------------|-------------------|
| Akzo Nobel Paints Vietnam Ltd* | Lot E-1-CN, My Phuoc II Industrial Park, Ben Cat District Binh Duong Vietnam | Shares | 462043000572 | Private |
| Cuprinol Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 272308 | Private |
| Dulux Botswana (Pty) Limited* | Haile Selassie Road Gaborone Botswana | Shares | Co. 1855 | Private |
| Dulux Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2048463 | Private |
| Dulux Namibia (Pty) Limited* | P O Box 30 24 Orban Street Klein Windhoek Windhoek Namibia | Shares | 2002/725 | Private |
| Dulux Swaziland (Pty) Limited* | 10th Street Industrial Site Matsapha Swaziland | Shares | 7/1966 | Private |
| Dulux Zambia (2005) Limited* | Plot no. 290 Nampungwe Road, Off Mumbwa Road, Chinika Lusaka 10101 Zambia | Shares | 60107 | Private |
| Ergon Investments International Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2074788 | Private |
| Ergon Investments UK Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2074787 | Private |
| Hammerite Products Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2781134 | Private |
| Horseferry Investments Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2306148 | Private |
| ICHEM reinsurance Company Limited | 94 Solaris Avenue, Second Floor, PO Box 69 Camana Bay Cayman Islands | Shares | #1070 | Private |

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

| Subsidiary undertakings | Registered Office Address | Limited by shares or guarantee | Registration number | Public or private |
|--|---|--------------------------------------|---------------------------|----------------------|
| ICI Chemicals & Polymers Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 358535 | Private |
| ICI Fertilisers (Ireland) Limited | Courthouse Chambers, 27/29 Washington Street Cork Ireland | Shares | 115416 | Private |
| ICI Finance Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 45690 | Private |
| ICI India Research and Technology Centre* | Plot No. 1/1, TTC Industrial Area, Thane Belapur Road, 12 Koparkhaime Navi Mumbai 400709 India | Shares | U73100MH19 76PTC019199 | Private |
| ICI Insurance Company Limited* | 94 Solaris Avenue, Second Floor, PO Box 69 Camana Bay Cayman Islands | Shares | #2475 | Private |
| ICI International Investments Limited* | PO Box 309 Ugland House, South Church Street George Town KY1-1104 Cayman Islands | Shares | 26631 | Private |
| ICI International Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2766927 | Private |
| ICI Ireland Ltd* | Shandon Works, Commons Road Cork Ireland | Shares | 196184 | Private |
| ICI Kern** | Edificio Kern Arda, Prinipal Los Cortyos de Lourde, Aparto 1567, Caracas Venezuela | Shares | N/A | Private |
| ICI Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 1852101 | Private |
| ICI North America Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 989786 | Private |

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

| Subsidiary undertakings | Registered Office Address | Limited by shares or guarantee | Registration number | Public or private |
|--|---|--------------------------------------|------------------------|----------------------|
| I.C. Insurance Holdings Limited | 2 Kingdom Street London W2 6BD United Kingdom | Shares | 1150046 | Private |
| ICI Paints (Trade Contract) Limited* | Manchester Road, West Timperley Altrincham WA14 5PG United Kingdom | Shares | 2881641 | Private |
| ICI Theta B.V.* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 24171758 | Private |
| Intex Yarns (Manufacturing) Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 137784 | Private |
| J.P. McDougall & Co. Limited* | Manchester Road, West Timperley Altrincham WA14 5PG United Kingdom | Shares | 254941 | Private |
| Metlac S.p.A* | Strada Statale 35 Bis dei Giovi Bosco Marengo 53-15062 Italy | Shares | 01264360064 | Private |
| Mortar Investments International Limited | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2767051 | Private |
| Mortar Investments UK Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 2767052 | Private |
| Pinturas Coral De Bolivia Ltda* | Parque Industrial Pi 24 Santa Cruz de la Sierra Bolivia | Shares | NIT 1015213026 | Private |
| Polycell Products Limited* | The AkzoNobel Building, Wexham Road Slough SL2 5DS United Kingdom | Shares | 521214 | Private |

Notes to the Financial Statements *(continued)*

23 Investment in related undertakings *(continued)*

| Subsidiary undertakings | Registered Office Address | Limited by shares or guarantee | Registration number | Public or private |
|---|---|--------------------------------|---------------------|-------------------|
| Quest International (Dublin) Limited* | Shandon Works, Commons Road Cork Ireland | Shares | 37960 | Private |
| Sales Support Group Limited* | Manchester Road, West Timperley Altrincham WA14 5PG United Kingdom | Shares | 891336 | Private |
| Scottish Agricultural Industries Limited* | Dundas & Wilson CS LLP, Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN United Kingdom | Shares | 15365 | Private |
| Stevenson Holdings Limited | Dundas & Wilson CS LLP, Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN United Kingdom | Shares | SC48881 | Private |

*Held by Subsidiaries

**Equity

On 7 July 2016, the Company's 49% owned joint venture, I.C. Insurance Holdings Limited, was placed into Members' Voluntary Liquidation.

On 25 November 2016, Dulux Namibia Pty Ltd was de-registered at the Ministry of Trade and Industry in Namibia.

On 12th December 2016, the Company's indirect subsidiary, ICI Theta B.V. agreed to the amalgamation of its subsidiary, Akzo Nobel (Asia Pacific) Pte Ltd into Akzo Nobel Paints (Singapore) Private Limited, as part of wider group restructuring activities.

On 1 January 2017, Akzo Nobel Paints (Asia Pacific) Pte Ltd merged into Akzo Nobel Paints (Singapore) Pte. Ltd and now operates entirely through the latter entity.

24 Operating leases

The toll manufacturing arrangement the Company has with another group company is partly accounted for as an operating lease arrangement as per IFRIC 4, where the Company is the lessor. This lease extends to its production facilities and the agreement is for a duration of 5 years from 1st October 2014. As there is no formal lease agreement in place between the parties, there are no set minimum contractual lease payments.

25 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a wholly owned subsidiary company of Akzo Nobel ICI Holdings, a company incorporated in England and Wales.

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

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

Notes to the Financial Statements *(continued)*

26 Restatement

Statement of Comprehensive Income Restated for the year ended 31 December 2015

| | <i>Note</i> | 2015 £m | Effect of restatement £m | Restated 2015 £m |
|--|--------------|--------------------|---|---------------------------------|
| Turnover | <i>a</i> | 485 | 8 | 493 |
| Cost of sales | | (346) | - | (346) |
| Gross profit | | 139 | 8 | 147 |
| Distribution costs | | (92) | - | (92) |
| Administrative expenses | | (33) | - | (33) |
| Other operating income | | 1 | - | 1 |
| Operating profit | | 15 | 8 | 23 |
| Income from shares in group undertakings | | 5 | - | 5 |
| Other interest receivable and similar income | <i>b</i> | 92 | (12) | 80 |
| Interest payable and similar expenses | | (4) | - | (4) |
| Profit before taxation | | 108 | (4) | 104 |
| Tax on profit | <i>a,b,d</i> | 2 | (33) | (31) |
| Profit for the financial year | | 110 | (37) | 73 |
| Other comprehensive income/(loss) | | | | |
| Items that will not be reclassified to the statement of comprehensive income | | | | |
| Remeasurements of defined benefit liability/asset | | (237) | - | (237) |
| Contribution to defined benefit funding deficit by non-sponsoring entities | | 2 | - | 2 |
| Income tax on items that will not be reclassified to the statement of comprehensive income | <i>d</i> | 8 | 34 | 42 |
| Total comprehensive loss for the financial year | | (117) | (3) | (120) |

Notes to the Financial Statements (continued)

26 Restatement

Balance Sheet Restated for the year ended 31 December 2015

| | Note | 2015 £m | Effect of restatement £m | Restated 2015 £m |
|--|-------------|------------|--------------------------------|------------------------|
| Fixed assets | | | | |
| Tangible assets | <i>b</i> | 216 | (12) | 204 |
| Investments | | 3,804 | - | 3,804 |
| Net defined benefit asset | | 236 | - | 236 |
| | | <hr/> | <hr/> | <hr/> |
| | | 4,256 | (12) | 4,244 |
| Current assets | | | | |
| Stocks | | 2 | - | 2 |
| Debtors (including £3,085m due after one year (2015: £3,093m)) | <i>a, c</i> | 3,311 | 19 | 3,330 |
| Cash at bank and in hand | | 1 | - | 1 |
| | | <hr/> | <hr/> | <hr/> |
| | | 3,314 | 19 | 3,333 |
| Creditors: amounts falling due within one year | <i>c</i> | (3,330) | (10) | (3,340) |
| Provisions (current) | | (1) | - | (1) |
| | | <hr/> | <hr/> | <hr/> |
| Net current (liabilities)/assets | | (17) | 9 | (8) |
| | | <hr/> | <hr/> | <hr/> |
| Total assets less current liabilities | | 4,239 | (3) | 4,236 |
| | | <hr/> | <hr/> | <hr/> |
| Deferred tax liability | | (40) | - | (40) |
| Provisions for liabilities | | (26) | - | (26) |
| | | <hr/> | <hr/> | <hr/> |
| | | (66) | - | (66) |
| | | <hr/> | <hr/> | <hr/> |
| Net assets | | 4,173 | (3) | 4,170 |
| | | <hr/> | <hr/> | <hr/> |
| Capital and reserves | | | | |
| Called up share capital | | 1,209 | - | 1,209 |
| Share premium account | | 940 | - | 940 |
| Retained earnings | | 2,024 | (3) | 2,021 |
| | | <hr/> | <hr/> | <hr/> |
| Total shareholders' funds | | 4,173 | (3) | 4,170 |
| | | <hr/> | <hr/> | <hr/> |

- a* Upon further review of toll manufacturing income during 2016, it was noted there was an error of £8m. The understatement has been corrected in 2015 and has been restated
- b* A review of capitalised assets for the construction of the Ashington plant was carried out in 2016. It was noted that there was an error of £12m and not all interest could be capitalised. The correction has been made to 2015 and restated.
- c* During 2016, a review of income recognition noted that Debtors were understated by £9m arising from the accounting for transactions with another group company which is deemed to be an agent of the Company. This has now been corrected in 2015 and restated.
- d* During 2016, a review of tax accounting identified that the deferred tax effect of the pension top up contribution was recorded incorrectly in Other Comprehensive Income. The 2015 amounts have been restated increasing income tax credit in OCI and increasing deferred tax charged on profit for the year by £32m