

Imperial Chemical Industries Limited

Annual Report and Financial Statements

Registered number 218019

31 December 2015



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Strategic Report

The directors present their Strategic Report, Directors' Report and the audited financial statements for the year ended 31 December 2015.

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'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 Annual Report and Accounts of the ultimate parent company; Akzo Nobel N.V. Copies are available as indicated in note 23 of the financial statements.

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.

Strategic Transformation

As announced in 2013 and disclosed in the AkzoNobel 2013 annual report a new strategy has been adopted. As part of the Decorative Paints European Business Unit the strategy is called "Fix Europe". This consists of a complete business process redesign across the business – driving standardisation and focusing the countries to concentrate on sales and marketing. The redesign process should result in increased sales and a reduction of costs through the standardisation of processes.

The UK is a key pillar in the Decorative Paints Business Unit and is part of the redesign. The Company entered into the new business process arrangements and completed the sale of its intellectual property on 1 October 2014. Following the implementation of the new strategy the Company became a limited risk distributor, selling AkzoNobel Decorative Paints products and also a fixed return toll manufacturer of finished products on behalf of a group company.

By entering into the redesign the Company intends to remove future risk by guaranteeing a fixed return on sales for its sales and marketing activities and a fixed mark up on both its toll manufacturing and research and development activities, in order to mitigate the risks arising from any future economic downturn.

As part of the transaction the Company sold the legal and beneficial rights to its Decorative Paints brands including Dulux®. The agreed sales price was £585m and as the brands were not recorded on the Company's balance sheet the transfer resulted in a one off gain of £585m in 2014.

Operational performance

In 2015, the UK domestic decorative coatings market grew, driven by increased construction output and consumer spending. Sales to the professional end-user segment grew ahead of the market with a small decline in the consumer segment. As a result, UK revenue from sale of products increased. This was offset by a decline in sale of product to other group companies outside the UK following the implementation of the new business model on 1st October 2014. The total sale of products decreased by €17m. The new business model also resulted in the Company receiving income for toll manufacturing services of €42m. Overall revenue increased by £25m and profit before tax excluding the effect of disposals and income from shares in group undertakings decreased by £2m. Adjusted profit before tax return on sale percentage was flat with 2014 at 23%. Profit on disposals and income from group undertakings was £600m lower as the proceeds from the sale of the brands was recognised in 2014.

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 planned new facility will be in Ashington, Northumberland and is anticipated to be operational during 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. 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.

Accelerated depreciation of £2m has been provided during the year 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.

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 2015/14 compared to 2014/13.

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	2015	2014	Delta
Turnover from sale of product	£443m	£460m	-£17m
Adjusted Profit before tax ROS	23%	23%	-

Turnover includes both third parties and intercompany sales. Adjusted profit before tax excludes profit on disposals and income from shares in group undertakings

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

Other Company Activities

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.

Strategic Report (*continued*)

Key Risks and Uncertainties

Economy

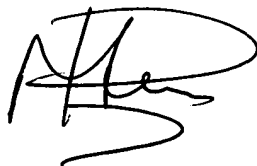
The main risks and uncertainties relating to the business are a downturn in the UK economy, specifically in relation to reduction in consumer investment in home decoration and commercial construction projects. This uncertainty is heightened by the recent Referendum by the UK which resulted in a vote 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 2015, ICIPF entered into three buy-ins and ISCPF entered into two buy-ins, as detailed in note 22.

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.



M. Pullen
Director

The AkzoNobel Building
Wexham Road
Slough
SL2 5DS

26 January 2017

Directors' Report

Results and dividends

The results for the year ended 31 December 2015 are set out on page 8 of the financial statements. The directors did not pay an interim dividend during the year, (2014: £nil) nor do the directors recommend the payment of a final dividend (2014: £nil).

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, SL2 5DS.

Post Balance Sheet Events

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

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.

Directors

The directors who held office during and subsequent to the year were as follows:

B. Chapman	(appointed 31 March 2016)
B. Kaster	
O.H. Director Limited	(resigned 25 February 2015)
M. Pullen	
D. Rivers	(appointed 20 January 2015, resigned 31 December 2016)
M. Smalley	
R. Sparks	(resigned 3 February 2016)
D. Turner	(appointed 25 February 2015, resigned 23 April 2015)

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.

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.

Directors' Report (continued)

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

In line with the decision of Akzo Nobel N.V. (the ultimate parent) to appoint PricewaterhouseCoopers LLP as external auditors for the group for the year ending 31 December 2016, it is expected that PricewaterhouseCoopers LLP will be appointed as the auditors for the Company for the year ending 31 December 2016.

Disclosure of information to auditors

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

By order of the Board



B. Chapman
Director

The AkzoNobel Building
Wexham Road
Slough
SL2 5DS

26 January 2017

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Imperial Chemical Industries Limited

We have audited the financial statements of Imperial Chemical Industries Limited for the year ended 31 December 2015 set out on pages 8 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report, the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom

26 January 2017

Profit and loss Account and Other Comprehensive Income
for the year ended 31 December 2015

	<i>Note</i>	2015 £m	2014 £m
Turnover			
Continuing operations	2	485	460
Cost of sales		(346)	(252)
		<hr/>	<hr/>
Gross profit		139	208
Distribution costs		(92)	(126)
Research & development costs		-	(8)
Administrative expenses		(33)	(17)
Amounts written off investments		-	(3)
Other operating income		1	5
		<hr/>	<hr/>
Operating profit		15	59
Continuing operations		<hr/>	<hr/>
		15	59
Profit on disposal of intangible assets	4	-	585
Income from shares in group undertakings	5	5	20
Other interest receivable and similar income	6	92	47
Interest payable and similar charges	7	(4)	(1)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		108	710
Tax on profit on ordinary activities	10	2	4
		<hr/>	<hr/>
Profit after taxation and for the financial year		110	714
		<hr/>	<hr/>
Other comprehensive income			
Remeasurements of defined benefit liability/asset		(237)	(330)
Contribution to defined benefit funding deficit by non-sponsoring entities		2	69
Income tax on items that will not be reclassified to profit or loss		8	25
		<hr/>	<hr/>
Total comprehensive (loss)/income for the financial year		(117)	478
		<hr/>	<hr/>


The notes on pages 11 to 38 form part of these financial statements.

Balance sheet
at 31 December 2015

	<i>Note</i>	2015 £m	£m	2014 £m	£m
Fixed assets					
Tangible assets	11	216		173	
Investments	12	3,804		3,803	
Net defined benefit asset	22	236		271	
			4,256		4,247
Current assets					
Stocks	13	2		1	
Debtors: including £3,085m due after one year (2014: £585m)	14	3,311		3,391	
Cash at bank and in hand		1		3	
		3,314		3,395	
Creditors: amounts falling due within one year	15	(3,330)		(3,275)	
Provisions (current)	17	(1)		-	
			(17)		120
Net current (liabilities)/assets					
			4,239		4,367
Total assets less current liabilities					
Provisions for liabilities					
Deferred tax liability	16	(40)		(46)	
Pension liability	17	(13)		(14)	
Restructuring provision	17	(12)		(16)	
Other provisions	17	(1)		(1)	
			(66)		(77)
Net assets			4,173		4,290
Capital and reserves					
Called up share capital	19	1,209		1,209	
Share premium account		940		940	
Profit and loss account		2,024		2,141	
Shareholders' funds			4,173		4,290

The notes on pages 11 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 26 January 2017 and were signed on its behalf by:


M. Pullen
Director

Statement of changes in equity

	Called up share capital £m	Share Premium Account £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2014	1,209	940	1,663	3,812
Total comprehensive income for the period				
Profit	-	-	714	714
Other comprehensive income				
Remeasurements of defined benefit liability/asset			(330)	(330)
Contribution to defined benefit funding deficit by non-sponsoring entities			69	69
Income tax on items that will not be reclassified to profit or loss	-	-	25	25
Total comprehensive income for the period	-	-	478	478
Balance at 31 December 2014	1,209	940	2,141	4,290

	Called up share Capital £m	Share Premium Account £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2015	1,209	940	2,141	4,290
Total comprehensive income for the period				
Profit	-	-	110	110
Other 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 profit or loss			8	8
Total comprehensive income for the period	-	-	(117)	(117)
Balance at 31 December 2015	1,209	940	2,024	4,173

The notes on pages 11 to 38 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Imperial Chemical Industries Limited (the "Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 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.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). 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 the Companies Act 2006.

In these financial statements, the Company has adopted FRS 101 for the first time.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 26.

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

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Notes (continued)

1 Accounting policies (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

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

1.1 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 1.11.

1.2 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.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies 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 profit and loss account.

1.4 Fixed asset investments

Investments in subsidiaries, associates and joint ventures are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Buildings	30 years
Plant and equipment	13 years
Computer software	4 - 5 years

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Tangible fixed assets *(continued)*

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

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 2015, to its estimated residual value at the end of its current useful economic life or closure of the factory, whichever is earlier.

1.6 Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

1.7 Research and development expenditure

Expenditure on research and development is charged to profit in the year in which it is incurred.

1.8 Stocks

Finished goods, raw materials and other stocks are stated at the lower of cost and net realisable value. The first in, first out or an average cost method of valuation is used. In determining cost for stock valuation purposes, depreciation is included but selling expenses and certain overhead expenses are excluded. Following the implementation of the Company's new business model the Company will no longer own stocks as will toll manufacture on behalf of a central decorative paints company in the Netherlands.

1.9 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes (continued)

1 Accounting policies (continued)

1.10 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.

1.11 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 profit and loss account 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 profit or loss.

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 profit or loss when the plan amendment or curtailment occurs.

Notes (continued)

1 Accounting policies (continued)

1.11 Employee benefits (continued)

Defined benefit plans (continued)

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 profit and loss account, 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.

1.12 Dividends on shares presented within shareholders' funds

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

2 Analysis of 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.

	2015 £m	2014 £m
Sale of goods	443	460
Rendering of services	42	-
	<hr/>	<hr/>
	485	460
	<hr/>	<hr/>

3 Expenses and auditor's remuneration

The auditor's fee for audit of these financial statements was £82,500 (2014:£70,000).

Notes *(continued)*

4 Profit on disposal of intangible assets

	2015 £m	2014 £m
Profit on disposal of intangible assets	-	585

During 2014 the Company sold the legal and beneficial rights to its Decorative Paints brands including Dulux®. The agreed sales price was £585m and as the brands were not recorded on the Company's balance sheet the transfer resulted in a one off gain of £585m.

5 Income from shares in group undertakings

	2015 £m	2014 £m
Income from shares in group undertakings	5	20

6 Other interest receivable and similar income

	2015 £m	2014 £m
Interest receivable from group undertakings	92	47

7 Interest payable and similar charges

	2015 £m	2014 £m
Interest payable to group undertakings	(1)	-
Net exchange losses	(3)	(1)
	(4)	(1)

Notes (continued)

8 Remuneration of directors

	2015 £000	2014 £000
Directors' emoluments in respect of qualifying services	408	745
Amounts receivable under long term incentive schemes	42	152
Company contributions to money purchase pension schemes	42	43
Company contributions to final salary pension schemes	-	73
	<u> </u>	<u> </u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director in respect to qualifying services was £315,000 (2014: £326,000). Company pension contributions of £28,000 (2014: £73,000) were made to a money purchase scheme (2014: *final salary scheme*) on behalf of the highest paid director in respect of qualifying services.

	Number of directors 2015	2014
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	1
	<u> </u>	<u> </u>
The number of directors who exercised share options in the ultimate parent company	1	3
	<u> </u>	<u> </u>
The number of directors in respect of whose services, shares in the ultimate parent company were received or receivable under long term incentive schemes	1	2
	<u> </u>	<u> </u>

Some directors received no remuneration for their services to the Company in either year. These directors are employed by, and receive remuneration for services from a wholly owned subsidiary of the ultimate parent company.

9 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was 897 (2014: 916). The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	45	60
Social security costs	6	7
Pension costs (see note 22)	15	131
Restructuring costs	1	2
	<u> </u>	<u> </u>
	67	200
	<u> </u>	<u> </u>

During the year restructuring related severance costs of £1m (2014: £2m) were recorded in equally in administrative and distribution expenses.

Notes (continued)

10 Taxation

Recognised in the profit and loss account

<i>Analysis of charge in year</i>	2015 £m	2014 £m
<i>UK corporation tax</i>		
Current tax charge for the year	2	4
<i>Deferred tax</i>		
Origination/reversal of timing differences	8	(6)
Losses carried forward	-	12
De recognition of deferred tax asset	(8)	(6)
Total deferred tax	-	-
Tax charge on profit on ordinary activities	2	4

Reconciliation of effective tax rate

	2015 £m	2014 £m
Profit for the year	110	714
Total tax credit	2	4
Profit excluding taxation	108	710
Tax using UK corporation tax rate 20.25% (2014: 21.5%)	(22)	(153)
Income not taxable – dividend income	1	4
Income not taxable – profit on disposal of intangible	-	126
Prior year adjustment	-	6
Pension spreading	8	9
Expenses not deductible for tax purposes – amounts written off investments	-	(1)
Expenses not deductible for tax purposes – other disallowables	(1)	(1)
Tax losses not recognised	(8)	(12)
Pension funding deficit contribution	39	26
UK to UK transfer pricing adjustment	(13)	-
Withholding tax refund	(2)	-
Total tax credit	2	4

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 taxable profit forecasts of the Company, a current year deferred tax asset of £8m (2014: £6m) was de-recognised.

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 (continued)

10 Taxation (continued)

Franked Investment Income Litigation

The Company is a member of 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 will be reflected in the 2016 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 (continued)

10 Taxation (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%.

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. As a result of these changes, any deferred tax asset or liability at 31 December 2015 will be recognised at 18%.

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 not substantively enacted at the balance sheet date but will reduce the current tax charge and any deferred tax asset of the Company in the future.

11 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At beginning of year	17	232	143	392
Additions	-	1	55	56
Disposals & other movements	-	(1)	(3)	(4)
Transfer of assets into use	-	14	(14)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	17	246	181	444
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	(12)	(207)	-	(219)
Charge for year	(1)	(8)	-	(9)
Disposals & other movements	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	(13)	(215)	-	(228)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2015	4	31	181	216
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	5	25	143	173
	<hr/>	<hr/>	<hr/>	<hr/>

Accelerated depreciation of £2m was provided in 2015 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.

Notes (continued)

11 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	2015 £m	2014 £m
Freehold	4	5

12 Fixed asset investments

	Shares £m	Participating Interests £m	Total £m
Cost			
At beginning of year	3,901	12	3,913
Additions	1	-	1
At end of year	3,902	12	3,914
Provisions			
At beginning of year	(110)	-	(110)
At end of year	(110)	-	(110)
Net book value			
At 31 December 2015	3,792	12	3,804
At 31 December 2014	3,791	12	3,803

The directors have reviewed the Company's investments for indications of impairment by comparing the carrying value, to the net asset value of the investments and their subsidiaries. An impairment of £nil (2014: £3m) was recorded in ICHEM Reinsurance Company Limited (Cayman Islands) to ensure that the net book value of investments at the balance sheet date does not exceed the estimated recoverable amount of the shares in group undertakings.

On 30 January 2014, the Company 100% wholly owned subsidiary, ICHEM Insurance Company Limited was dissolved.

Shares in directly held subsidiary undertakings which are listed investments have a balance sheet value of £28m (2014: £28m) and a market value at 31 December 2015 of £329m (2014: £322m).

The companies, in which the Company's interest at 31 December 2015 is more than 20%, are disclosed in note 24.

Notes (continued)

13 Stocks

	2015 £m	2014 £m
Finished goods and goods for resale	2	1

14 Debtors

	2015 £m	2014 £m
Amounts owed by group undertakings: due in less than one year	192	2,775
Amounts owed by group undertakings: due in greater than one year	3,085	585
Trade debtors	11	12
Other debtors	21	18
Prepayments and accrued income	2	1
	<u>3,311</u>	<u>3,391</u>

15 Creditors: amounts falling due within one year

	2015 £m	2014 £m
Trade creditors	39	50
Amounts owed to group undertakings	3,204	3,190
Other creditors	87	35
	<u>3,330</u>	<u>3,275</u>

Notes *(continued)*

16 Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	2015 £m	2014 £m
Employee benefits	(40)	(46)

Movement in deferred tax during the year

	1 January 2015 £m	Recognised in Income £m	Recognised in OCI £m	31 December 2015 £m
Employee benefits	46	1	(7)	40

Movement in deferred tax during the prior year

	1 January 2014 £m	Recognised in Income £m	Recognised in OCI £m	31 December 2014 £m
Employee benefits	69	2	(25)	46

Notes (continued)

17 Provisions for liabilities

	Post retirement and benefit provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At beginning of year	14	16	1	31
Profit and loss account	1	1	-	2
Utilised during year	(1)	(5)	-	(6)
At end of year	14	12	1	27
Current	1			1
Non-current	13	12	1	26
	14	12	1	27

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 £1m (2014: £2m) in relation to employee costs associated with restructuring activities within the Decorative paints business.

Other Provisions

These include provisions for surplus real estate leases plus other operational liabilities.

18 Deferred tax

Deferred tax assets are recognised to the extent that future probable taxable profits will be available against which the deferred tax asset can be utilised and based upon future taxable profit forecasts the Company has not recognised a deferred tax asset.

As at 31 December 2015, based upon a deferred tax rate of 18% (2014: 20%), £102m (2014: £111m) of deferred tax assets have not been recognised on the basis that there are insufficient forecast taxable profits in the Company against which they can be used. The deferred tax asset is in respect of;

	2015 £m	2014 £m
Losses carried forward	74	73
Fixed assets	26	28
Restructuring provisions/business provisions/other	2	10
	102	111

Notes (continued)

19 Called up share capital

	2015 £m	2014 £m
<i>Allotted, called up and fully paid</i>		
1,209,327,168 (2014: 1,209,327,168) ordinary shares of £1 each	<u>1,209</u>	<u>1,209</u>

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 2015 the overall cash pool balance was £1,076,000 credit (2014: £1,074,475 credit).

Included within amounts owed by group undertakings is £0.6m (2014: £0.7m 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:

	2015 £m	2014 £m
Authorised and contracted for	<u>38</u>	<u>41</u>

Notes (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 94.5 percent and 5.4 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.

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. Both the ICIPF and ISCPF use a corporate trustee, called ICI Pensions Trustee Limited, a company which is owned by The Law Debenture Trust Corporation PLC, a professional trustee company which is 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 (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 2015, the Trustee of ICIPF entered into three more annuity buy-in agreements. Two of the agreements are with Legal & General plc and the other is with Prudential Retirement Income Limited and they cover, in aggregate, £1.5 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 £230 million. In 2015, the Trustee of ISCPF transacted two buy-ins in August and November 2015 with Prudential Retirement Income Limited covering £235 million of pensions liabilities (local plan value) giving a reduction in Other comprehensive income of £47 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.

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 £3 million in 2015 (2014: £4 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 2015, 217 retired employees were beneficiaries of the scheme (2014: 235). The plan exposes the Company to the risk of a further decline in discount rates, which would increase the plan obligations.

Notes (continued)

22 Post-retirement benefit provisions (continued)

Reconciliation balance sheet

	2015			2014		
	£m	£m	£m	£m	£m	£m
	DBO	Plan assets	Total	DBO	Plan assets	Total
Balance at the beginning of the period	(8,757)	9,015	258	(8,401)	8,785	384
Statement of income						
Current service cost	(9)	-	(9)	(9)	-	(9)
Past service cost	(2)	-	(2)	(3)	-	(3)
Non Sponsoring entity contributions	-	2	2	-	2	2
Net interest (charge)/income on net defined benefit (liability)/asset	(291)	305	14	(348)	372	24
Income recognized in statement of income	(302)	307	5	(360)	374	14
Remeasurements						
Actuarial gain/(loss) due to liability experience	205	-	205	23	-	23
Actuarial gain/(loss) due to liability financial assumption changes	170	-	170	(657)	-	(657)
Actuarial gain/(loss) due to liability demographic assumption changes	(79)	-	(79)	102	-	102
Actuarial loss due to buy-ins	-	(277)	(277)	-	(695)	(695)
Return on plan assets greater/(less) than discount rate	-	(255)	(255)	-	897	897
Remeasurement effects recognized in other comprehensive income	296	(532)	(236)	(532)	202	(330)
Non sponsoring entity contributions to funding deficit recognised in other comprehensive income	-	-	-	-	65	65
Cash flow						
Employer contributions	-	197	197	-	192	192
Non sponsoring entity contributions to funding deficit	-	-	-	-	(65)	(65)
Non Sponsoring entity contributions	-	(2)	(2)	-	(2)	(2)
Benefits and administration costs paid from plan assets	542	(542)	-	536	(536)	-
Net cash flow	542	(347)	195	536	(411)	125
Balance at the end of the period	(8,221)	8,443	222	(8,757)	9,015	258
Net balance sheet provision			222			258

Notes (continued)

22 Post-retirement benefit provisions (continued)

Reconciliation balance sheet (continued)

			2015			2014
	£m	£m	£m	£m	£m	£m
	DBO	Plan assets	Total	DBO	Plan assets	Total
In the balance sheet under						
Other financial non-current assets	-	-	236	-	-	271
Post-retirement benefit provisions	-	-	(13)	-	-	(13)
Current portion of provisions	-	-	(1)	-	-	-
Liabilities held for sale	-	-	-	-	-	-
Net balance sheet provision	-	-	222	-	-	258

The expenses of the funds are borne directly by participating entities. Administration expenses are expensed as incurred and charged to Operating income. Administration expenses in 2015 totalled £8 million (2014: £8 million). In addition, directly incurred asset management expenses of £4 million (2014: £7 million) have been included in Other comprehensive income.

DBO at funded and unfunded pension plans

	2015	2014
	£m	£m
Wholly or partly funded plans	8,207	8,744
Unfunded plans	14	13
Total	8,221	8,757

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 (2014: £24 million).

Notes (continued)

22 Post-retirement benefit provisions (continued)

Plan assets

	2015		2014	
	£m	Percentage of total	£m	Percentage of total
Equities	28	0	380	4
Debt – fixed interest government bonds	308	4	514	6
Debt – index-linked government bonds	2,274	27	2,060	23
Debt – corporate and other bonds	34	0	641	7
Insurance contracts	4,451	53	3,275	36
Cash and cash equivalents	162	2	611	7
Other	1,186	14	1,534	17
Total	8,443	100	9,015	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 £54 million (2014: £45 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 the Company own transferable financial instruments, nor any property occupied by or assets used by the Company.

Pension balances recorded under Other financial non-current assets totalled £236 million (2014: £271 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 2016, the Company expect to contribute £169 million to our defined benefit pension plans. This includes £13 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
2016	543	0
2017	544	0
2018	545	0
2019	546	0
2020	546	0
2021-2025	2,749	1

Notes *(continued)*

22 Post-retirement benefit provisions (continued)

Key figures and assumptions by plan

	2015				
	ICIPF UK £m	ISCPF UK £m	Other pension plans £m	Other post- retirement benefits £m	Total £m
Percentage of total DBO	95%	5%	0%	0%	
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 recognized on the balance sheet	205	31	(12)	(2)	222
Percentage of total current service cost	82%	18%	0%	0%	
Current service cost	7	2	-	-	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 (continued)

22 Post-retirement benefit provisions (continued)

Key figures and assumptions by plan (continued)

	2014				
	ICIPF UK £m	ISCPF UK £m	Other pension plans £m	Other post- retirement benefits £m	Total £m
Percentage of total DBO	95%	5%	0%	0%	
Defined Benefit Obligation	-8,298	-446	-11	-2	-8,757
Fair value of plan assets	8,483	532	-	-	9,015
Plan funded status	185	86	-11	-2	258
Amounts recognized on the balance sheet	185	86	-11	-2	258
Percentage of total current service cost	84%	16%	0%	0%	
Current service cost	8	1	-	-	9
Employer contributions	190	1	1	-	192
Discount rate	3.4%	3.7%	3.8%	3.8%	3.4%
Rate of compensation increase	3.9%	4.0%	-	-	3.9%
Inflation	2.9%	3.0%	0.0%	-	2.9%
Pension increases	2.8%	2.9%	2.9%	-	2.8%
Healthcare cost trend rate for next year	-	-	-	6.2%	6.2%
Rate to which cost trend rate is assumed to decline	-	-	-	6.2%	6.2%
Year that rate reaches the ultimate trend	-	-	-	2015	2015
Life expectancy (in years)					
Currently aged 60					
Males	26.7	27.4	26.8	26.8	26.7
Females	29	29.1	29.3	29	29
Currently aged 45, from age 60					
Males	27.8	28.6	28	27.9	27.8
Females	30.3	30.3	30.5	30.3	30.3

Notes (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	509	43	1	-	553
Price inflation: 0.5% increase^	314	25	1	-	340
Life expectancy: one year increase from age 60	362	16	-	-	378

Maturity information

Weighted average duration of DBO (years)	12.6	18.2	13.4	7.3	12.9
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^ 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.

Notes (continued)

22 Post-retirement benefit provisions (continued)

Key plan details of the largest pension plan

	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 members nominated One independent (Law Debenture) Five appointed with the agreement of Law Debenture
Plan structure	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Five members nominated One independent (Law Debenture) Five appointed with the agreement of 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 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
Funding basis	
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 2016 and 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 1 at March 31, 2015	£0.75 billion
Estimated solvency deficit 1 at March 31, 2015	£1.8 billion
Asset allocation at March 31, 2015	
Matching:	85%
Return seeking:	15%
Escrow account	Buy-in annuity contracts cover 66% of pensioner liabilities
Membership at March 31, 2015	Not applicable
Active	347
Deferred	9,327

^^ Based on local valuation regulations.

Notes (continued)

23 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.

24 Investment in related undertakings

The companies, in which the Company's interest at 31 December 2015 is more than 20%, are as follows;

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership	
			2015	2014
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 (continued)

24 Investment in related undertakings (continued)

Subsidiary undertakings	Country of Incorporation	Class of shares held	Ownership	
			2015	2014
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%

*Held by Subsidiaries

**Equity

On 20 March 2015, the Company's indirectly owned subsidiary ICI Funding Limited was voluntarily struck off the Register of Companies in Jersey.

On 5 May 2015, Canliq 2 Limited (formerly Dulux Limited) was voluntarily struck-off from the Register at Companies House.

On 22 May 2015, the Company's 49% owned joint venture, I.C. Insurance Holdings Limited, sold its 100% owned subsidiary I.C. Insurance Limited to Randall & Quilter Investment Holdings Limited.

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

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.

25 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.

26 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP).

Notes (continued)

26 Explanation of transition to FRS 101 (continued)

Reconciliation of equity

	Note	1 January 2014			31 December 2014		
		UK GAAP £m	Effect of transition to FRS101 £m	FRS101 £m	UK GAAP £m	Effect of transition to FRS101 £m	FRS101 £m
Fixed assets							
Tangible fixed assets		133		133	173		173
Investments		3,834		3,834	3,803		3,803
Net defined benefit asset	a,b	-	397	397	-	271	271
		<u>3,967</u>	<u>397</u>	<u>4,364</u>	<u>3,976</u>	<u>271</u>	<u>4,247</u>
Current assets							
Stocks		33		33	1		1
Amounts owed by group undertakings: due in less than one year		3,439		3,439	2,775		2,775
Amounts owed by group undertakings: due in greater than one year		-		-	585		585
Trade debtors		9		9	12		12
Other debtors		16		16	18		18
Prepayments and accrued income		2		2	1		1
Cash at bank and in hand		5		5	3		3
		<u>3,504</u>		<u>3,504</u>	<u>3,395</u>		<u>3,395</u>
Creditors: amounts due within one year							
Trade creditors		(75)		(75)	(50)		(50)
Amounts owed to group undertakings		(3,835)		(3,835)	(3,190)		(3,190)
Bank overdrafts		-		-	-		-
Other creditors		(44)		(44)	(35)		(35)
		<u>(3,954)</u>		<u>(3,954)</u>	<u>(3,275)</u>		<u>(3,275)</u>
Net current assets		<u>(450)</u>		<u>(450)</u>	<u>120</u>		<u>120</u>
Total assets less current liabilities		<u>3,517</u>	<u>397</u>	<u>3,914</u>	<u>4,096</u>	<u>271</u>	<u>4,367</u>
Provisions for liabilities							
Deferred tax liability	a	-	(70)	(70)	-	(46)	(46)
Pension liability	a,b	(44)	30	(14)	(38)	24	(14)
Restructuring provision	a	(14)		(14)	(16)		(16)
Other provisions		(4)		(4)	(1)		(1)
		<u>3,455</u>	<u>357</u>	<u>3,812</u>	<u>4,041</u>	<u>249</u>	<u>4,290</u>
Capital and reserves							
Called up share capital		1,209		1,209	1,209		1,209
Share premium account		940		940	940		940
Profit and loss account	a	1,306	357	1,663	1,892	249	2,141
Shareholders' deficit		<u>3,455</u>	<u>357</u>	<u>3,812</u>	<u>4,041</u>	<u>249</u>	<u>4,290</u>

Notes (continued)

26 Explanation of transition to FRS 101 (continued)

Reconciliation of profit for 2014

	Note	2014 Effect of transition to FRS101 £m	FRS101 £m
		UK GAAP £m	
Turnover			
Continuing operations		460	460
Cost of sales		(252)	(252)
Gross profit		208	208
Distribution costs		(126)	(126)
Research & development costs		(8)	(8)
Administrative expenses	a, b	(147)	(17)
Amounts written off investments		(3)	(3)
Other operating income		5	5
Other operating expense		-	-
Operating loss			
Continuing operations		(71)	59
		(71)	59
Profit on disposal of intangible assets		585	585
Income from shares in group undertakings		20	20
Other interest receivable and similar income		47	47
Interest payable and similar charges		(1)	(1)
Profit on ordinary activities before taxation		580	710
Tax on profit on ordinary activities	b	6	4
Profit after taxation and for the financial year		586	714

- a Under UK GAAP, the ICI Pension Fund (refer note 22) was considered a multi-employer scheme, where the Company was unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore the scheme was not reported on the balance sheet of any entity. Instead it was accounted for on a contribution basis so all cash contributions (regular and top up) into the scheme were booked as a P&L expense in the accounts of participating entities.

FRS101 removes the multi-employer exemption for schemes that are under common control, and therefore the ICI Pension Fund is recognised on the balance sheet of the Company as the sponsoring entity. Full IAS19 accounting and disclosures have been applied.

- b Under UK GAAP, a provision was held for future pension administration expenses associated with divested businesses. Under IAS19R, these are expensed as incurred.